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**Globalisation
Dimensions and Impacts**
Global Studies Series Vol.2

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Editors

Hilal Yıldız

Farhang Morady

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Globalisation Dimensions & Impacts

Global Studies Series Vol.2

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Introduction

Globalization: Dimensions and Impacts

Global Studies

Vol. 2

The concept of globalisation is essentially about the increasing economic, political, cultural and technological intergradation with increasing speed, depth and breadth. Globalisation has become a buzz word in many academic debates, especially, amongst those who use the concept to describe the spread of global capitalism, market, the declining role of the state, and globalisation of civil society. (Harvey, 2005; Harmon, 2009; Chomsky 1999; Saad-Filho and Johnston 2004). In short, Harvey defines neoliberalism as:

... a theory of political, economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets and free trade. The role of the state is to create and preserve an institutional framework appropriate to such practices. The state has to guarantee, for example, the quality and integrity of money. It must also set up those military, defence, police and legal structures and functions required to secure private property rights and to guarantee, by force if need be, the proper functioning of markets. Furthermore, if markets do not exist (in areas such as land, water, education, health care, social security, or environmental pollution) then they must be created, by state action if necessary (Harvey 2005:2).

This has become an all-encompassing term for differing economic and political projects. What essentially new liberalism has in common is that the state should be minimal, as the competition of the market will bring economic efficiency and choice. The crisis of capitalism in the late 1970s and 1980s has opened the gap for neoliberal ideas to have resonance as a solution to global capitalism. Despite their political, historical, geographical and economic differences, nearly every country in the world, especially, in the global south, has implemented neoliberal policies in some form. The policies have become an increasingly real alternative to over-come

the predicament of the world economy.

With the demise of Soviet ideology, the advocates of the free market liberalism in the world, particularly, in the USA, saw this as an opportunity to reassert their power globally. Hence, the globalisation of the world economy is claimed to 'serve the great majority of the world's people', and it will liberate the poor countries because they will have 'free domestic and international trade and more open financial markets' (Wade: 2004:38).

At the core of globalisation lies the belief that a country must promote the private sector as the primary engine of its economic growth by shrinking the size of its state bureaucracy; increasing exports; privatising state-owned industries and utilities and deregulating capital markets (Freidman, 1999). The process that led to claim that the state, 'that artefact of the eighteenth and nineteenth centuries – has begun to crumble' (Ohmea, 1995: 7). With the international system, the borders are no longer necessary, and the international commerce would become free from the cumbersome constraints of state interference. However, the reality after nearly three decades of globalisation have not been drastically different from much of the world, the international system has yet to witness universalization of democracy or wealth. In fact, 'one of the consequences of globalisation appears to have been the poor growth and polarisation of wealth' (Morady & Siriner, 2011).

Whilst 'the free market ideology that has dominated the public discourse as it puts emphasis on the dominant criterion of maximising profit through the private sector', a more fundamental question is, 'whether the market will be able to provide all the social, economic and political needs of the world's people' (Morady & Siriner, 2011), when the "bare logic" of capitalism is pitted against the cultural values of human experience (Castells, 2000). Globalisation, even if it's intended to meet basic economic, political and social needs of ordinary people, it has failed to deliver in much of the world. Indeed, this is noticeable in the area of gender equality. Their opposition to the globalisation has also been considerable with different social movements such as 'anti Capitalism' and 'anti war movement' have challenged the neoliberal agenda around the world. They have demonstrated their resentment in the process of economic, political and social unevenness, inequality between poor and rich, men and women, and the power of international organisations.

The organisation of the current book comprises different articles dealing with various domestic, regional, and global economics, political and social issues. This book is mainly focusing on Turkey, but different authors have used different frameworks with empirical studies. We hope to provide an assessment of globalisation and its impact within the international system.

The first article by Evren Denктаş and Bengü Doğangün Yasa is an attempts to analyse Karl Marx and Max Weber's work of social classes and its role in the economy and society. The article will argue that the middle class continues to play vital economic and political role, even though there has significant changes since globalization, especially in the developing countries.

The current economic complexity has become centre of attention for economic sociologists. Consequently, Karl Polanyi's concept of "(Dis)embeddedness". Gülten Dursun's paper will argue that the capitalist mode of production and distribution is within the field of economic system. Hence, as Polanyi argues the economy is immersed in social relations, i.e., it is not outside of this or independent.

Sema Yılmaz Genç will investigate Ibni Khaldun's economic contribution and his relevance in the contemporary globalized world. It will demonstrate that even though his work was articulated seven centuries ago, it continues to influence the modern academic literatures.

Hilal Yıldız and Keremet Shaiymbetova investigate the relationship between income inequality and economic growth through empirical studies of BRIC (Brazil, Russia, India, China) countries. Employing The Kuznets Curve they show in the latter stages of development, transition from agriculture towards industrialisation will lead to a change in the direction of income – inequality relation. In the first stage, with an increase in income, inequality will increase, but in the latter stages of industrialisation, with increasing income, the inequality level will decrease.

Figen Büyükkakin, focuses on credibility of Central Bank of Republic of Turkey to identify the importance of reliability in the effectiveness of monetary policy. In the event that macroeconomic dynamics are out of balance in an economy, monetary policies cannot provide sufficient confidence or control inflation. Therefore, possessing credibility for policy makers is vital in order to solve problems. She assesses CBRT's credible monetary policy strategy performance in Turkish Economy in the last decade.

Zişan Kılıçarslan assesses the importance of inflation targeting strategy in the Turkish economy. Using the Chow and Quant-Andrews structural break tests, she determined that the inflation targeting strategy applied in Turkey since 2002 had caused a structural break on the determined basic macroeconomic variables such as the consumer price index, exchange rate basket, budget deficit/GDP ratio, current deficit/GDP ratio and GDP growth ratio. The inflation targeting strategy is used with the aim of creating sustainability and permanence in price stabilization while fighting against inflation in the 1990's.

İsmail Şiriner and Keremet Shaiymbetova demonstrate the impact of globalisation

on the Great Financial Crisis of 2008 and the financial stability. By focusing on CBRT's monetary policy approaches since the 2007 crisis, they argue that the financial stability of the system requires an effective monetary policy for the stability of the economy as a whole.

Murat Aydın, looks at the role of state in local development in the period after globalization in Turkey. With the 2008 economic crises, expansion of service industries, structural unemployment, and decentralization have increased the responsibility of local development agencies. The state has continued to be the major actor, but working alongside of the local agencies; they have been responsible to regulate and implement policies to suit the market.

Mustafa Doğan also looks at the local development issue, yet assessing the role of ecomuseums in Turkey. Whilst the principles of sustainable local development are now widely implemented across the world, at the same time are protecting cultural and natural assets. The article will provide an overview on ecomuseums: that they are focused on a specific place or 'territory', and on the relationship between the population and their environment, culture and local history. He will argue that ecomuseums have been utilized as a major means of promoting sustainable development in many rural areas of the world by conserving natural, historical and sociocultural resources of a locality, whilst recognising a place's potential to provide low-level tourism and economic/social opportunities. The empirical work of the paper is based on ecomuseum and social-economic development in Boğatepe village, in the province of Kars in Turkey.

One of the consequences of globalisation is migration and gender as it is becoming a major socioeconomic study. The feminisation of migration as defining the number of women at international labour migration, has been increasing in recent years. Nilay Etiler and Kuvvet Lordoğlu will assess the health problems of recent female migrants. They will argue that women migrants, are mostly employed in jobs that are appropriate to their gender roles such as housework or childcare. Whilst, the health of migrants as a whole deteriorate because of poor living and working conditions, the female workers suffer more, especially in the area of mental health.

Ayhan Orhan focuses on the property rights of natural Resources in a globalised world. He examines the rapid change of natural resource distribution in since the 1990's, which has added a new dimension to the concept of property rights. Hence, he argues that natural resources and property rights could not be treated independently from Multi National Companies or the states.

As a last contributor of this volume of globalization, Farhang Morady argues that Iran's strategy to balance between the US on the one hand, and China, Russia and

India on the other, was a failure. According to his determinations, the end of the Cold War and the emergence of new independent republics in Central Asia offered Iran the opportunity to become a vital actor in the geopolitics of the region. Iran was seen as a possible corridor between Central Asia, the Persian Gulf, and the Indian Ocean Region (IOR). Struggling against US policy of strategic isolation, Iran made concerted efforts to break out of it by cultivating closer ties with non-Western powers. It used diplomacy, energy, and trade for the purpose of balancing its foreign relations. His paper will assess the strategic ambitions of Iran as a regional power and the degree of its success in combating Western imposed sanctions and the US military threat over the disputed nuclear programme. This 'balancing against the West' was the dominant approach during the Conservative presidency of Mahmoud Ahmadinejad. In the paper he figures out that it reflects a changed approach to serving Iran's interest by working with, and not against, the West. Due to nuclear détente, growing strategic convergence with the US in Iraq and Afghanistan, and the American shift in emphasis to the Pacific, Iran has an invaluable opportunity to re-emerge as a crucial member in the Indian Ocean Region.

We hope this addition of globalisation will provide some ideas to inspire academics and students not only to understand different problems that the world is facing, but some solutions as well.

Kocaeli and London

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1

ON THE TRACK OF MIDDLE CLASS: WHY IS THE MIDDLE CLASS GLOBALLY IMPORTANT?

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Abstract

This paper attempts to understand what middle class is and its importance in economy and social life through Marxist and Weberian perspectives. Definition of middle class is a debateful subject within these views, even its existence is questioned; but when one gets clues from its descriptions, it is possible to make sense of economic and social structures via its production, consumption, exploitation and ideological patterns. In the first phase, discussions on describing the middle class by Marxist writers, and approach to class concept by Weberian writers will be sought. In the second phase, the question that why middle class is important will be tried to answer. And as a last, inferences will be discussed.

Introduction

Middle class enlarges as capitalism advances. It has many definitions and many debates about what is really it, but this enlargement is a fact regardless of its definitions and impacts the predictions on the future of capitalism which is presumed to polarise between two main classes before. Although whether middle class is a main economic class or not is a debateful subject, seemingly its existence evoked redealing the cards. This paper tries to understand what middle class is and its importance in economy and social life.

In class resolutions, classes are evaluated in terms of certain criteria. Specification process of these criteria has facilitated development of new theoretical approaches. Two main models have been developed on class resolutions, which define how individuals are positioned within social hierarchy. Karl Marx, who has also set the framework for class theory, has introduced the first model. Marx has used “production tools” and “production relations” terms while explaining class concept, which he refers as the main social dynamic. Max Weber, on the other hand, has fictionalized a

second theory. In this theory he explained to concept in terms of “ownership” and “market”. He claimed that a class is as social group formed by people who share a common position in the market and created by commercial relationships in the market. (*Giddens, 1973: 4*)

This paper tries to understand what middle class is and its importance in economy and social life. Firstly, discussions on describing the middle class by Marxist writers, and approach to class concept by Weberian writers will be sought. Secondly, the question that why middle class is important will be tried to be answered. And as a last, inferences will be discussed.

Marx and the Middle Class

In Marxist analysis, where class concept is explained within the framework of production tools and production relationships, two main classes have come into existence. First of these classes is the “ruling class” or “bourgeoisie”, who owns or controls the production tools, whereas, the second one is “exploited class” or “proletariat”, who does not own or control these tools.

In Marxist class analysis, the founding concept is “exploitation”. Exploitation defines the process, which creates income inequalities via right and authority inequalities over production resources. (*Wright, Sınıf Analizine Yaklaşımlar, Notabene Yayınları, Ankara, 2014: 39-40*) These inequalities generally rise as exploiting group seizes excess production of exploited class via their right and authority over production resources. Concept of exploitation is related to dominance concept, which means social relations where one’s actions are monitored and governed by others. (*Wright, 2014: 42*)

The most common reading of Marx attributes to him a simplistic theory of class polarization in which the disappearance of the old middle class (the petty bourgeoisie) prepares the way for a direct and final confrontation between the two remaining classes: the proletariat and the bourgeoisie. According to this interpretation, Marx totally ignored the emergence of a salaried or new middle class. There are some passages that support this view in his works, its known that Marx occasionally used the concept of middle class instead of the concept of class or petty bourgeoisie. Especially he attached importance to this group by reason of the proletarian group includes the small industrials, merchants and rentiers, the artisans and peasants. According to Marx they were counted in this group, because their small capital does not suffice for the carrying on of largescale industry and succumbs in competition with the larger capitalists, partly because their skill is rendered worthless by new methods of production. (*Burris, 1986: 19*)

But analysing other passages or works of Marx and Engels, we see that they acknowledge not only a counter-tendency toward the continual renewal of small-property ownership, but also the replacement of petty-bourgeois intermediaries by intermediate groups of another kind: the growing number of salaried managers, overseers, and other capitalist functionaries. (*Burris, 1986: 19*)

Marx's reasoning on this point would no doubt have been clarified in the famous unfinished chapter on "Classes" that concluded the third volume of '*Capital*'. It was precisely this problem, in fact, that Marx was beginning to address at the point where the manuscript breaks off. Marx noted that even in England, where capitalism achieved its highest state of development, the stratification of classes does not appear in its pure form. Middle and intermediate strata even here obliterate lines of demarcation everywhere. Nevertheless, Marx affirmed that there were three distinct groups - wage-laborers, capitalists, and landlords - that constituted the three major classes in capitalist society. (*Marx, 2010: 610*)

Marx focuses on the distinction between bourgeoisie and proletariat; also mentions about the petty bourgeoisie including small shop keepers, farmers etc. and informs that as capitalism deepens in time, the main actors of the market would have been concentrated on two main classes and petty bourgeoisie would have been wiped off the face of the earth. (*Marx and Engels, 2008: 70*) In contrast, petty bourgeoisie (or middle class) had an absolute and proportional increase as capitalism advanced; so that debates about middle class among Marxists seemingly have become one of the main topics in Marxist literature. Erik Olin Wright (1980: 325-327) goes to the classify middle class approaches in terms of debates what middle class is in Marxist framework, and three of these different views become prominent. First one claims that a new formation has been derived distinguished from traditional petty bourgeoisie, it is called as "new petty bourgeoisie". Second one intends to see middle class as a whole structure, so that it is inseparable and locating between two main classes. Third one assumes middle class as a fragmented structure. Accordingly, there are contradictory locations within middle class.

Nicos Poulantzas (1975) takes a stand for first view. According to Poulantzas, employees may be classified as productive ones (or proletariat) and unproductive ones. Although both of them are wage earners, only proletariat is a side of exploitation relations and produces surplus value. On the other hand, commercial worker for instance, neither produces surplus value nor becomes a side of exploitation relations directly. Also, he or she doesn't belong to the means of production. Rather, a commercial worker helps the capitalist to reduce the costs of realizing surplus value, so that the capitalist earns more. Economic relations are not only integral in Poulantzas's analysis; he also puts emphasis on ideological relations between classes. Especially management and supervisory have the role of reproduction of political relationship

between capitalist and working classes within production process. As mental laborers organise production process and occupies dominant possessions on working class, they transfer ideological messages to them. They are also different from capitalist class due to lacking of control of means of production.

All these managers, supervisors, commercial workers etc. are all unproductive workers with their role of political and ideological roles and are members of bourgeoisie, not working class; this class is named “new petty bourgeoisie”. Martin Niclous, another contributor to the theory, has an opposite thesis to Marx’s one. He claims that as capitalism deepens, labor would be occupied in unproductive activities even more for two reason. First, the accumulation process requires an increasing number of unproductive labor for technical circumstances. Accordingly, as capital grows, large amount of labor must maintain it with their traditional branches such as bookkeeping and new branches such as banking system, credit system, insurance system, advertising etc. and also new categories such as scientific and technological establishments and public education. Second, even the profit rate decreases, as productivity increases, surplus rate also increases. If not, insufficient demand problem may cause a crisis. To handle this problem, unproductive labor must be employed. Niclous conceptualises this as “law of surplus class.” (Niclous, 1967:275) This law expresses why the new middle class is rising.

The second approach is less complex than the other two. Wage earners including mental workers do not own means of production and fall outside of the working class and capitalist class and also petty bourgeoisie, are named “Professional –Managerial Class” (PMC) by Barbara and John Ehrenreich. (1977: 13) Main function of PMC is reproduction of the capitalist culture and and the capitalist class relations, so it developed its own universities and elite intitutions, adopted technocratic liberalism and as members of this division distintced their interests from capitalist and working classes.

As mentioned above, the other main approach tends to see middle class as a fragmented division. Major thinkers of this idea are Guglielmo Carchedi and Eric Olin Wright. To begin with Carchedi’s analysis, some of his basic arguements must be told. First, he considers four dichotomies; these are owner and non-owner, laborer and non-laborer, producer and non-producer, exploiter and non-exploiter. (Carchedi, 1975) Second, he decribes three dimensions; these are ownership, exproportion and funtional elements. Ownership element is the power to dispose the means of production and the labor power. Exproportion element means exproportion of unpaid labor time of a worker. And functional element is the function of a specific position in social relations of production. Then he describes three levels of capitalism. First level is *the private capitalist mode of production characterized by formal subordination of labor to capital*, in which workers are under formal control of a capitalist in a workshop; yet

all the production process is controlled by each individual laborer. The second level of capitalism is *private capitalist mode of production characterized by real subordination of labor to capital*; in which labor is systematically divided, evaluated to collective worker and lost control on production process in a modern factory. And the third level is *monopoly capitalist mode of production*, in which production is controlled by “global capitalist”, rather than individual capitalists. Global capitalism describes a structure that consist of collective, differentiated and managerial form. Thus, Cachedi focuses on evaluated forms of the capitalist and the worker; namely, global capitalist and collective worker, and their functions. The function of the global capitalist is control and surveillance of labor process; and the function of collective worker is to be part of scientifically organized labor process in order to produce use-value. In this labor process, unpaid labor is expropriated as surplus labor or surplus value. In this respect, new middle class who is a non-owner of means of production, is either part of function of the global capitalist or the function of collective worker. It means, new middle class is either exploiting or exploited. Carchedi identifies the capitalist class as owner/non-laborer/exploiter and working class as non-owner/laborer/exploited. But middle class can not be identified as clearer as this categorization. According to Carchedi, middle class should only be identified in terms of contradiction and he describes “new middle class” as some of the positions that are identifiable in terms of non-ownership of the means of production and the performance of the global function of capital. New middle class is a form that emerged in monopoly capitalism level; seperated within itself as top levels, middle levels and bottom levels. Top executives and top managers are counted in capitalist class, they perform the global funtion of capital, as top levels of new middle class mostly. Bottom positions are close to the worker class in terms of three functions Carchedi defined.

Erik Olin Wright (1980: 328-333) also follows the idea of fragmanted structure of middle class and describes it as “contradictory locations within class relations.” His analysis begins with three interconnected dimensions: money capital, physical capital and labor. These are relations that characterized as subordinantion and domination in terms of their capacity of control on resources. At the highest level of abstraction in fundamental class relations, there is a polarization between labor and capital; so that the capitalist who controls money, physical capital and labor occupies dominant position while labor who lacks of control on these resources occupies subordinate positions. This kind of abstraction is called as “capitalist mode of production.” When the abstraction level is declined to social formation level, it can be possible to analyse other classes; Wright follows this second way. Then contradictory locations within class relations would also be described clearly. For example, looking at petty bourgeoisie in terms of three dimensions of social relations, he/she has a control on money and physical capital; but not on labor due to labor is not employed. It is not neces-

sary that three dimensions of social relations of production are consistent perfectly. When this consistency condition is avoided, additional class locations are revealed; and contradictory class locations too. He attaches the importance of three contradictory locations: *Managers and supervisors* locate between working class and capitalist class. They are excluded from control on money capital as working class is; they are distinct from working class due to they have certain control on physical capital and labor. Top managers occupy location closest to capitalist class; and foremen occupy location closest to working class. *Small employers* locate between petty bourgeoisie and capitalist class. They employ some labor unlike petty bourgeoisie, so they are in exploitation relation with working class; but they also use their own labor power unlike the capitalist class. They also can not accumulate capital; because they don't have enough labor power. *Semiautonomous employees* locate between working class and petty bourgeoisie. They are excluded from control on money capital and labor like working class; but they have a certain control on physical means of production like petty bourgeoisie. These locations are described as contradictory; because they share relational characteristics with two basic classes.

Thereafter, Wright abandoned his contradictory locations approach, and rather than that he focused on exploitation relations in order to analysis the class structure in terms of Marxist perspective essentially. (Wright, 1998) According to his new analysis called "multiple exploitations" which is built on Roemer's analysis (Roemer, 1982), there are four types of assets which are labor power assets (feudal exploitation), capital assets (capitalist exploitation), organization assets (statist exploitation) and skill or credential assets (socialist exploitation). In statism, actors of exploitation are managers/bureaucrats and non-management classes. (Wright, a general framework for the analysis of class) Mechanism of exploitation is described as planned appropriation and distribution of surplus based on hierarchy; and principal asset unequally distributed is organization. Socialism is consisted of expert class and working class. This time, exploitation direction is from workers to experts, but this is a negotiated redistribution and main determinant of distinction between the classes is skills. He argues that actual societies consist of different forms of combination of different mechanism of exploitation rather single type of exploitation as pure modes of production suggests. There are such positions that exploited by one mechanism and exploited through another mechanism simultaneously, and these positions constitute "middle class". For example, managers are capitalistically exploited, but at the same time they are organization exploiters; and experts are capitalistically exploited again, but they are skill/credential exploiters. Thus, exploitation-centered concept takes place of domination-centered one.

Weber and the Middle Class

Also similar to the Marxist way, in Weber's way of class analysis, individual rights and authorities over production resources define economic source of class relationships. However differently, these rights and authorities are effective in formation of life opportunities that are encountered with in exchange process. Control over production resources is effective in terms of bargaining capacity in these exchanges. This situation ends up affecting the distribution of income, which is the result of exchange process. (Wright, 2014: 42)

It is well known that Weber saw class as only one aspect of the distribution of power in society. In a famous definition, power is 'the probability that one actor within a social relationship will be in a position to carry out his own will despite resistance, regardless of the basis on which this probability rests' and status groups and parties, along with classes are, for Weber, the major phenomena of the distribution of power in society. The distinction between them concerns the different resources that each can bring to influence the distribution of life chances. (Breen, 1995: 42)

The concept of life chances is frequently used in Weberian class analysis. We can define the term life opportunities with A. Giddens's terms as following: "*Life chances that individuals have to share socially created economic or cultural goods in a society.*" (Giddens, 1973: 130) Weber claims that status gained in this sharing will define the social class of individuals. According to the supporters of Weber, class concept is interesting because it forms a connection between status of these individuals in capitalist market and unequal distribution of life chances. So, status differences in the market also cause differences in social status.

In terms of tradition that starts with Weber, most essential criticism of Marx is that Marxism only approaches the class model from an economic perspective. Marx has based his social resolution on economically structured production relationship and presented class conflict as an inevitable consequence of material benefit. Giddens, who criticised this approach significantly, highlighted sociological perspective by associating exploitation mechanism with status differences.

At this point an important criticism also came from Dahrendorf, who was influenced by both Marx and Weber. He places authority relationships to the centre of class analysis from a conflict-based perspective. From his perspective, legitimized control in modern industrial societies is more important than ownership of production tools. (Poloma, 1993: 119) According to Dahrendorf, class is a real phenomenon with effective forces in social conflict. He argued that "*class[es], understood as conflict groups arising out of the authority structure of imperatively coordinated associations, are in conflict.*" (Dahrendorf, 1959: 207) Dahrendorf used a holistic approach and focused on social facts and larger social structures. Accordingly, society is composed

of several positions that have different amounts of authority.

Another approach that has been recently used in class analysis is class diagram introduced by a new-Weberian analyst Goldhorpe. With this schema Goldhorpe distinguished different professions based on their status in the market, trying to identify income expectations, occupation conditions, economic assurance and economic development in terms of the situation of the market. (*Goldhorpe, 1987: 40*)

If class positions are defined by reference to employment relations, then the experience of individuals in terms of economic security, stability and prospects will typically differ with the class positions that they hold. At least with some of the more marked contrasts that in this way arise, individuals in different class positions could in fact be seen as living in quite different economic worlds, not just as regards their levels of material welfare but, further, as regards the whole range of economic life-chances – of risks and opportunities – that they face. (*Goldhorpe, 2004: 24*)

Main purpose of Goldhorpe's class schema is to discover the associations defined by labour market and employment relations in production units, in time, based on their distribution over status of individuals and families and processes that cause their redistribution and their consequence in terms of life chances. (*Goldhorpe and Marshall, 1992: 382*)

Studies by recent period researchers Evans and Mills have tried to show to which extent the class schema of Goldhorpe was accomplished to embrace differences of employment relationships. Evans and Mills who tried to analyse employment relations by taking payroll data of England from 1984 into account, have concluded that there are four main classes: paid white collars, junior managers and supervisors, workers of non-hand labour and workers hand labour. Their results were supportive of Goldhorpe's schema. They also believe that class related status differences are associated with differences in life chances. (*Geoffrey and Mills, 1998: 87*)

Why the Middle Class is Important?

Although identifying and describing middle class are debateful subjects among writers, there is also an agreement on middle class doesn't produce surplus value. Surplus value is indispensable for the accumulation of capital, on the other hand middle class who neither produce use value nor surplus value directly, enlarges as capitalism advances, also earns income much more than working class who produces use value and surplus value directly. If he/she doesn't produce meta directly, then he/she doesn't produce his/her own subsistence wage. Then what is the source of income of middle class? If we are talking about industry, income of the middle class sourced from surplus which capitalist desired to share. As Carchedi mentioned above, ca-

pitalist desires to maintain producing surplus value, but his/her supervision would be beyond his/her abilities as firm develops and labor he/she employed multiplies.

Second question is why the income of middle class is more than what worker class earns. This question is answered through several aspects. According to Bourdieu (1986, *Forms of Capital*), capital should not be seen as only with its economic form. There are also three other forms. Social capital for instance, is defined as network of social relations providing individuals or groups for circulation and transform of their different capital forms. Culturel capital is, accumulation of symbolic and culturel values which providing owners to be seen as superior in society. It is also separated as “school capital” and “culturel capital owned through inheritance”; so that this capital moves from generation to generation. As a last, symbolical capital is the perception of position of individuals or groups in a society. Individuals in different classes, also have different capital forms with different combinatons and weights. Dominant classes have all of these forms with heavy weight, whereas petty bourgeoisie owns less, and working class owns the least. It is also necessary to emphasise that classes can not be classified in terms of hierarchical base. Each classes can be distncted through composition and congfiguration of capitals within itself. For distinction, Bordieu’s habitus concept is a helpful tool. Habitus is described as existing “inside the heads of actors through and because of the practices of actors and their interaction with each other and rest of their environment (such as ways of talking, ways of moving, ways of making things)”; its “practical taxonomies are imprinted and encoded in a socialising or learning process which commences during early childhood” and belonging generative scheme. (Jenkins, 1992: 45-46)

Through the Bourdieu’s and other writers’ concepts, the answer of the question above can be given in a certain comprehension. First, middle class is a structure consisted of different forms of capital, so that its habitus needs different levels of expenditure. Like working class, middle class must reproduce itself. Having white collar skills such as managerial, supervisory ones, or skills of semiautonom professions such as advocacy, public accountantcy etc. need a certain level of education and certain level of life style. In capitalist societies, educated people demand “return of education”; and return of education is perceived as legitimate, or if we use Bourdieu’s one main argument, it is a habitus. It doesn’t mean whether this perception is right or not, but even the poorest may see education as an opportunity to earn more, and capitalist tend to employ a “better educated” one. If this aspect is adopted to intergenerational reproduction of middle class, parents belong to middle class also desire their children to be inside middle class at least when they become adult, so they tend to expand for their education. Also, for infusing child with middle class culture, or culture capital, middle class family would purchase required commodities.

Remembering Ehreinrich’s approach, middle class can be organized by its unions and

professional associations, such as chambers of engineers, chamber of public accountants etc. and they can look after their own interests. Thinking from this aspect with culture capital or habitus, and moreover their ideology Poulantzas emphasised on their moves or behavior patterns almost take form in terms of class consciousness.

But all these answers are results of social relations of production, rather than reason. As Wright mentioned above, class relations may be based on domination and subordination (even he has refused this approach and adopted to the exploitation-centered one); as the position becomes more dominant, the income level also gets higher. Technician earns more than worker, engineer earns more than technician, manager earns more than engineer and so on. Income is perceived as directly proportional to degree of domination of position occupied. But why? In an industry when capitalist wants middle class employees to make production process and retaining surplus in steady, authorizes them to control and surveillance of labor process (or global capitalist is already authorized or evaluated to authorize himself/herself as Carchedi mentioned above). As authorizing and being close in a degree to middle class employees, capitalist also “blows from her/his spirit” to them. Due to sphere of influence occurred, middle class would like to resemble to capitalist more than worker class who is in perimeter or even out of this sphere. So, a relationship is constituted: On one hand, capitalist tends to give more amount of wage to middle class employees in terms of their functions and domination to their inferiors, on the other hand these employees also demand more in order to resemble to their superior(s) and demand a certain level of income.

Their profession as well as their higher income level is play an important role in respect to relations of production. Because in both macroeconomic and microeconomic perspectives, middle class members have the power to shape demand and supply in an economy. First, their preferences, increase the range of commodities produced. They can go saving, thus they can buy commodities those prices are more than salaries or wages they earned. If there was not middle class, commodities would have tended to polarized as subsistence commodities and luxury commodities.

As Niclous mentioned, accumulation of capital must be realised, so demand of middle class plays a crucial role. When a crisis occurs in an economy, supply declines; but the economy doesn't fall as a whole. Middle class, especially positions with job security such as public officers, restrain declining of supply. We can observe that when a recession or even a crisis blows up, retailers choose to decline the prices in case of bankruptcy danger, and they receive increasing demand from a population who did undergo pay decrease and dismissal less frequently.

In Lieu of Conclusion

Class analyses of both Marx and Weber have influenced subsequent philosophers. These two ideological systems have continued to be focus of discussion of class theory in 20th century. Theories that put defining classes in terms of seizing production tools into centre stayed closer to Marxist class theories. On the other hand, theorists who are called, new-Weberian, have also referred to power relations and abilities as a component of social lamination as they are influenced by resolutions of Weber on distribution of power and status in society. They tend to approach classification and lamination on social differentiation axis, instead of social conflict.

As globalization deepens, middle class both influences relations of production and social relations and is also influenced by them. As mentioned above, middle class can save, and also can import. But things subjected to importation are not only commodities, also cultural factors must be taken into account. Because capitalists from different nations tend to resemble each other in global area, efforts of middle class for imitation to capitalists similarly make its members from different nations resemble each other again. They share same preferences such as movies watched, music listened to, clothes worn etc, so similar consumption patterns are in carpet among nations. Thus middle class is evaluated to a transnational concept in respect to both economic and social in a sense.

One of the main transformations caused by the globalization process is the consumption centric approach. In financial world “being visible” has also become significant beyond existing and owning, which is enabled via consumption. Where individual’s worth in society is measured in terms of the things they own in the pre-capitalist period; it is measured in terms of being visible instead, in capitalist network of 21st century. (*Sarfati, 2014: 7*)

Middle class, as carrier of the consumption culture, has a substantial impact on mass production, relations of production and also composition of production. Institutions of capitalism such as OECD and World Bank, see middle class as a structure stabilising the economic and political system, emphasis on its importance and necessity to support. Reason should be sought in concept of “hope”. Transform of an individual who belongs to working class, to capitalist class is a sharp and though one, but transform to middle class is not. Workers may hope for themselves or their family and children to be members of middle class; “success stories” they heard may motive them to work hard, to use the opportunity to educate themselves or their children perhaps. The belief that education and hard work creates opportunity for “climbing the social ladder” may make them reluctant to conflict with the system. So middle class does not only carry the capitalist ideology to bottom classes, it also carries “hope” to them; thus lifetime of capitalism is depended on whether middle class rece-

ives satisfaction from it or not. In fact, elections in a country is predicted in respect to what middle class thinks; or in a least developed country, policy makers may express that middle class is in danger to decline to bottom level in terms of life satisfaction. Latter is prevalent in the developing world due to sensitive production conditions.

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REVISITING KARL POLANYI'S TRANSFORMING MARKET SOCIETY AND "EMBEDDEDNESS" THESIS

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Abstract

Karl Polanyi is one of the economic historians who strongly criticized capitalism after Marx. Polanyi's capitalist system finds itself in the history of social change systems. In Polanyi's hypothesis of "embeddedness", focusing on the relationship between economics and society, *all economic activities and institutions are embedded in the social relations and social institutions*. Trade unions, labor regulations and welfare state applications of the state show the situations which Polanyi called "the always embedded market economy". Polanyi believes that the efforts to protect families and local communities from destructions caused by markets will establish a tolerable balance. This study focuses on the meaning of embeddedness. Polanyi's concept of embeddedness/disembeddedness has recently been used widely to understand the complex structure of today's economics especially by economic sociologists. However, this study will try to indicate that capitalist mode of production and distribution is completely within the field of economics and that it cannot be concretized within social relations out of economics as put forward by Polanyi. The last sixty-year evolution of the capitalist system supported that functioning of a market system that is isolated from people, which was Polanyi's proposition, was very destructive for people, nature and the market itself. However, this also led to the fact that protective actions work for the continuity of the markets. Therefore, analysis of economics by means of "embeddedness" is highly misleading. Either the applications of the welfare period or governance today have not changed the meta-character of land and money; reproduction of people and the society is still dependent on the market. In this case, it is not likely to think that economics has become embedded in the society.

Introduction

When the concept of embeddedness is considered in economic sociology, it is understood that it has two purposes associated with each other. The first one is that this concept is used to explain the social and cultural phenomenon by showing that it has a historical background. The idea of embeddedness itself is embedded in the cultural and social structure. The cultural concept of embeddedness is associated with the concept of market. In this context, Polanyi aimed to investigate the place of economics in the society. His primary research question is about how economic

activities are embedded in the matrix of non-economic motives and institutions (*Lie, 1991:220*). In Polanyi's hypothesis of "embeddedness", focusing on the relationship between economics and society, all economic activities and institutions are embedded in the social relations and social institutions. Trade unions, labor regulations and welfare state applications of the state show the situations which Polanyi called "the always embedded market economy". Polanyi believes that the efforts to protect families and local communities from destructions caused by markets will establish a tolerable balance.

During the period when "The Great Transformation" was published, Polanyi believed his war time planning experience. But 20 years after his death, the failure of socialism, the failure of state-centered development strategies in the former colonies and less developed countries paved the way for the renaissance of liberalism. For a decade, countries were forced to privatization and liberalization, focusing on the new minimalist role of the state during the development process (*Putzer, 2002*). However, the fact that life and ways of living have been commoditized with good governance has not changed. Good governance has enabled the market economy to be a part of its reconciliation efforts with human society. The evolution of the capitalist system has not changed the essence of the system. In Polanyi's determinations about the criticism of capitalism, it is stated that functioning of the market forces in an isolated way from society will rationally become destructive after a certain period of time regarding human, nature and eventually the capitalist system itself. When we consider the last three decades after 1980, that the market forces isolated from the society in which the working conditions deteriorated see the nature as a commodity is a complete threat both for the labor and the nature. Examples such as the bearing capacity of the earth, climate, ocean currents, risk of accessing resources etc. exhibit an autonomous structure rather than a supervisory regulation. Fierce competition conditions and the desire to earn more caused the neoliberal market forces, which enabled this, to be much more powerful. This means that the regulatory and administering power of the state mitigates with the increasing effect of the company interests.

This study focuses on the meaning of embeddedness. Polanyi's concept of embeddedness/disembeddedness has recently been used widely to understand the complex structure of today's economics particularly by economic sociologists. This study will try to indicate that capitalist mode of production and distribution is completely within the field of economics and that, by following Wood (*2003a*), it cannot be concretized within out of economics social relations as put forward by Polanyi. After the introduction part, Polanyi's concept of "embeddedness" will be investigated; in the second part, the double movement and self-protection of the society and in the third part, whether the state will return to the heart of economics as in Polanyi's thought along with the post-welfare period and today's global crisis will be discussed.

Karl Polanyi's "Embeddedness" and Market Society

The use of the concept of "embeddedness" in the economic sociology is positioned as a theoretical and methodological problem (Cotterrell, 2013:51). The concept is used in "The Great Transformation", a famous work of Karl Polanyi, and it tells about instability and dangers in the case of being disembedded. According to Barber (1995:401) and Krippner (2001:779) the concept of "embeddedness" is not a central term in "The Great Transformation"; it is not indexed at the end of the book and it is only used twice. According to Polanyi:

Instead of economy being embedded in social relations, social relations are embedded in the economic system. The vital importance of the economic factor to the existence of society precludes any other result. For once the economic system is organized in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow that system to function according to its own laws. This is the meaning of the familiar assertion that a market economy can function only in a market society (Polanyi [1944] 2001:60).

Several pages later Polanyi also writes about this contradiction:

In the vast ancient systems of redistribution, acts of barter as well as local markets were a usual, but no more than a subordinate trait. The same is true where reciprocity rules: acts of barter are here usually embedded in long-range relations implying trust and confidence, a situation which tends to obliterate the bilateral character of the transaction. (Polanyi [1944] 2001: 61)

Even though Polanyi occasionally used the term "embeddedness" in *The Great Transformation*, he used it very often in his published books and articles during the post war period (1947-57) and unpublished notes and manuscripts (Dale, 2011:320). In fact, it is not known what inspired him to use the concept of "embeddedness" which he referred to the interaction among economic and other social institutions. According to Dale, Polanyi might have been pointing out the definition of "institution" written by American Institutional Economist Walton Hamilton in 1932. Polanyi, in these works of his, identifies societies with status. That is "**economic life is embedded in social relations**". In such societies, policies are for the satisfaction of socially defined needs. Individuals in society tend to suppress their egoist behaviors in favor of their roles in the collective whole (Dale, 2011: 320).

The concept of embeddedness particularly became the basic reference point for social scientists' criticism of the concept of "homo economicus". Polanyi showed how economic transactions gradually got abstracted from social relations (Wade, 2009).

Block (2004:6) writes:

"The logical starting point for explaining Polanyi's thinking is his concept of embeddedness. Perhaps his most famous contribution to social thought, it has also been a source of enormous confusion in understanding his argument."

However, there have been different interpretations on Polanyi's hypothesis of embeddedness. One of these interpretations states that the book generates a theoretical proposition. Polanyi identified the period, particularly from the beginning of 19th century when the idea and practice of the self-regulating market collapsed until the time of World War II, when he wrote his book, as a pathological case as he expressed in his analysis.

His primary claim is that economics is out of political control and social responsibility within specific historical circumstances and *markets are powerless regarding the maintenance of this instability and utopic situation*. Contrasting interpretations argue that economy is always embedded and will not be in another way as put forward by Polanyi (Block, 2003). That the political and social errors perverted the discussions regarding the self-regulating market openness. According to this view, it must be seen that economic works cannot be isolated from socio-political context, and it must explain how political processes and social conditions shape and structure economy. This is a "methodological principle". (Gemici,2008:19).

Polanyi uses the concept of embeddedness to comprehend the changing place of economy in society throughout human history; that is, to separate pre-modern economies from the market economy. Here, embeddedness is a historical variable. Accordingly, the market economy has been anomalous starting from the time when it was the first disembedded economic system in history. On the other hand, embeddedness is a methodological principle that proposes society and economics can only be analyzed through a holistic approach. In other words, Polanyi adapts an approach that takes society instead of classes as an analysis unit¹. Economic life can be analyzed through the examination of how it forms a part of social relations and institutions. Here, embeddedness is neither a variable nor a changing characteristic of the economic systems in history. Polanyi's view stating "*all economic life is embedded in social relations and institutions*" came up as a result of the holistic point of view (Balan, 2012). However, when Polanyi compares the market system with the other economic systems in history (household, reciprocity and redistribution), he changes to the re-

1 Polanyi argues that the period they examine cannot be explained with Marx's history theses, and thus, class interests and class relations also change within change. Therefore, he argues that one must understand the change of the place of economy in society and how different groups get affected by the change. In addition, according to Strohane (1997), Polanyi shared the idea that classes were important in explaining the social change in Marx's capitalist market society. However, Polanyi witnessed the disintegration of classes in the 19th century and did not believe in the revolutionary working class. Instead, he developed a more complex idea; he examined how classes got involved in collective actions to reach their aims (Strohane, 1997:96).

strictive institutional analysis². Here, Polanyi reduces economic life to socio-spatial structure in the circulation of goods and services. This result contradicts with the concept of embeddedness as a universal methodological principle regarding the conceptualization of embeddedness (*Gemici, 2008:7*).

While, on one hand, Polanyi puts forward that it is impossible to separate economy from society because all economic systems are embedded in social relations and institutions, he, on the other hand, envisions a market economy functioning according to its own rules in case it is separated from social institutions. Therefore, markets and market economy become disembedded. This contradicting situation is considered as a **dichotomic** situation in economic anthropology. *“In saying that the market is disembedded in modern capitalism Polanyi is not claiming that markets here exist without any institutional context. When Polanyi refers to the disembedding of the market, he is referring to the disappearance of legal and customary regulatory constraints on the working of markets”* (O’Neill, 1998:11-12). According to Polanyi, the origin of the destruction of the modern era, especially the 20th century, is the utopic effort of economic liberalism to build the self-regulating market economy. *“The development of modern market society, the great transformation, is a story of the escape of the economy from the social and ethical limits.”* (O’Neill, 1998:29) Polanyi claims that neoclassicism is a utopia since the beginning.

On the opening page of the book, he writes:

Our thesis is that the idea of a self-adjusting market implied a stark Utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness. (Polanyi [1944] 2001:xxiv-xxv)

The extract continues as follows:

Inevitably, society took measures to protect itself, but whatever measures it took impaired the self-regulation of the market, disorganized industrial life, and thus endangered society in yet another way. It was this dilemma which forced the development of the market system into a definite Groove and finally disrupted the social organization based upon it. (Polanyi [1944] 2001: 3,4)

In this extract, Polanyi’s views show parallelism with Marx’s views of the conflicts of

2 Polanyi mentions about three organizational systems. One of them is the market system (change) and it is dependent on the classical economy laws. The other two forms of organization are “reciprocity” and “redistribution.” The system of reciprocity, which is based on gift exchange, has no economic value; however, it supports social solidarity. Marcel Mauss ([1925]1967) put forward that this “archaic form of change” had religious, legal, moral and economic meanings and was based on three unwritten laws by making a generalization. Obligation to give, obligation to receive, and obligation to reciprocate. There is no such thing as an unreciprocated gift. Polanyi took this generalization a step further and made the gift the central characteristic of the first of the three economic system model. Redistribution is dependent on social hierarchy. Tribute flows to the capital city of an empire and then flows out to the provinces (*Burke, [2003] 2011: 62-63*).

capitalism³. In Polanyi, the effort to create a self-regulating market leads to the protection effort of society from the markets with a countermovement. Because there is no society in the world that accepts the assumptions of neoclassicism and that is completely subject to its mechanisms. Neoclassical assumptions and free market liberalism threatens the natural essence of people and social factory. Such fear eventually causes the society to protect itself. Therefore, they cannot find a society that includes all the claims and rules of the neoclassical theory. Thus, this makes it possible for classical economists and their neoclassical contemporaries to turn back to public discussion again and again.

The period which Polanyi called the great transformation is a period "including the change in the action motive of the society members" during and after the industrial revolution. Polanyi states that "*the civilization of the nineteenth century was unique precisely in that it centered on a definite institutional mechanism*." (Polanyi, [1944] 2001:4)

Market economy is a very specific economic system in human history. Economic field before capitalism was never institutionally separated from the rest of the society. Therefore, such an economic system, that is, separation of economic field from political field, is a result of the creation of imaginary commodities. Polanyi tells in detail how modern capitalism was gradually formed in Great Britain nearly from the 7th century. He writes how people moved to small factories and the capital (money) was formed through trade by means of privatization of the lands and dispossession. Thus, land, labor and capital (money) have been completely commoditized, and the required labor and financial support for the industrial revolution and industrial society were provided. (*Balaam and Dillman, 2010:31*) According to Polanyi, "the great transformation" is the end of the 19th century civilization, and the death of economic liberalism and utopia.

In this initial formulation, Polanyi does not mention about the concept of embeddedness. Then Polanyi tries to show the contradiction of former social order with market liberalism project in the history embedded in economic activities.

"..... all economic systems known to us up to the end of feudalism in Western Europe were organized either on the principles of reciprocity or redistribu-

3 According to Marx, the main thing for the existence of a free market mechanism that is not subject to any regulations is to drain the original source of all wealth – land and laborer. "*Marx here sees the despoliation and degradation of the relation to nature just as important as the devaluation and debasement of the laborer.*" (Harvey 2011:216) In the Volume I of the Capital, Marx writes as follows in Part 23 in which he tells about the "General Law of Capitalist Accumulation": "*all methods for the production of surplus-value are at the same time methods of accumulation; and every extension of accumulation becomes again a means for the development of those methods. It follows therefore that in proportion as capital accumulates, the lot of the laborer be his payment high or low, must grow worse... It establishes an accumulation of misery, corresponding with accumulation of capital. Accumulation of wealth at one pole is, therefore, at the same time accumulation of misery, agony of toil slavery, ignorance, brutality, mental degradation, at the opposite pole, I.E., on the side of the class that produces its own product in the form of capital.*" (Marx, [1890] 2011:623-624) Polanyi can be said to understand Marx's argument very well although he did not cite his works.

bution, or householding, or some combination of the three. These principles were institutionalized with the help of a social organization which, inter alia, made use of the patterns of symmetry, centrality, and autarchy. In this framework, the orderly production and distribution of goods was secured through a great variety of individual motives disciplined by general principles of behavior. Among these motives gain was not prominent. Custom and law, magic and religion co-operated in inducing the individual to comply with rules of behavior which, eventually, ensured his functioning in the economic system". (Polanyi [1944] 2001: 57)

Polanyi stated that the concept of market could not be true for any period of time before BC IV. "According to him, trade did not happen automatically, it was being managed." (Ridley, 2013[2010]:179) According to Ridley, the thesis of Polanyi's or the "substantivists" who are his followers, failed to stand the test of time. "It is now seen that the state does not protect trade, but seizes its control... Polanyi depicted the reflection of the planning obsessed time he lived ... the state planning mentality ruling over the second half of the 20th century constantly questioned who made decisions about and who was responsible for the commercial policy. But the world is not run like this. Trade emerged due to the reciprocal relationship of individuals. Trade evolved and no one was responsible for its operation." (Ridley, [2010] 2013:179) As seen, Ridley criticizes from a liberal perspective. Indeed, archeological records refuted Polanyi's argument which states that there was no trade and market in the empires of early periods. (Frank, 2010:44)

While Ellen M. Wood analyzes the meanings of the authentic differentiation of the economic field, she puts forward that production and distribution are totally economic and cannot be concretized in non-economic social relations as brought forward by Polanyi. According to Wood, only in capitalism one can talk about a specific economic field that has its own movement principles. And class exploitation, as in Marx, is achieved with economic tools, not with non-economic tools, that is, military and political pressure tools. (Wood, [1995] 2003a:28) Wood writes:

"....in a system where production is generally production for exchange; that the allocation of social labour and the distribution of resources are achieved through the 'economic' mechanism of commodity exchange; that the 'economic' forces of the commodity and labour markets acquire a life of their own; that, to quote Marx, property 'receives its purely economic form by discarding all its former political and social embellishments and associations'

Above all, it means that the appropriation of surplus labour takes place in the 'economic' sphere by 'economic' means..... Direct 'extra-economic' pressure or overt coercion are, in principle, unnecessary to compel the expropriated labourer to give up surplus labour. Although the coercive force of the 'political' sphere is ultimately

necessary to sustain private property and the power of appropriation, economic need supplies the immediate compulsion forcing the worker to transfer surplus labour to the capitalist in order to gain access to the means of production". (Wood, [1995] 2003a: 28-29)

As seen in the paragraph above, Ellen Wood sees the emergence of a separate political field as an integral part of the development of capitalist production style. (Yılmaz, 2003:277) Wood here sees the 19th century market mechanism, which is read by Polanyi as the situation of being disembedded, as a distinctive (unique) economic field of the capitalist production style.

"Only capitalism is directed by pure economic drives (competition, accumulation and profit maximization) and here even class relations are mediated by the market." (Wood, 2003b: 240)

Since Polanyi deals with society instead of classes as an analysis unit, it is understood that he deals with political pressure in an institutional context.

Double Movement: Self-Protection of Society

The duty to build market society makes economy disembedded by suddenly removing the foundations organizing economic life since it promotes individual gains. Polanyi elaborates this argument and gives the new and unforeseen meaning of embeddedness. The second part of his book is called "Self-Protection of Society". In this part, he tells about the "double movement", restructuring of economic life:

"For a century the Dynamics of modern society was governed by a double movement: the market expanded continuously but this movement was met by a countermovement checking the expansion in definite direction. Vital though such a countermovement was for the protection of society, it was incompatible with the self-regulation of the market, and thus with the market system itself. (Polanyi [1944] 2001: 136)

Polanyi, in this part, shows the idea that self-protection of the society is effectively embedded in economics throughout the market society history. For the market society to work it is necessary for the embeddedness to continue at a certain threshold level; otherwise, social risks and economic disasters come into question. Polanyi shows that protection is not only adapted by those involved in counter-movement but also by the market supporters. Polanyi states as follows:

*"....Thus even those who wished most ardently to free the state from all unnecessary duties, and whose whole philosophy demanded the restriction of state activities, could not but entrust the self-same state with the new Powers, organs, and instruments required for the establishment of *laissez-faire*".*

(Polanyi [1944] 2001: 147)

He writes as follows a few pages later:

“It is highly significant that in either case consistent liberals from Lloyd George and Theodore Roosevelt to Thurman Arnold and Walter Lippmann subordinated laissez-faire to the demand for a free competitive market; they pressed for regulations and restrictions, for penal laws and compulsion, arguing as any “collectivist” would that the freedom of contract was being “abused” by trade unions, or corporations, whichever it was”. (Polanyi [1944] 2001: 155)

As seen, according to Polanyi, competitive markets require the continuity of state activities. Furthermore, Polanyi’s argument is that as imaginary commodities labor, land and also money require organizational structures. One of the major characteristics of capitalism is the existence of markets on land, labor and money. The creation of commodity image causes the separation of “economic field” and the reflection of this institutional separation to people’s thoughts for the first time in human history. (Özel, 2003:236) State attempts’ regarding labor being embedded in the economy consists of institutional tools such as Factory Laws and New Laws for the Poor, which limit the exploitation of the labor. These tools are those which also enable the development of education system that will meet the infrastructure of public health and specialized manpower. In the matter of land, for the farmer population to be protected from the income fluctuations, reliable and stable food supply is provided with reasonable prices. Most of the infrastructure of embeddedness about money was built in the late 19th century as a result of the stabilization of the banking system and control of money supply by the state, which led to the emergence of central banking.

Polanyi wanted to emphasize the social origins of the double movement by refuting the economic determinism of class based analyses by embedding economic life in the nature of social state. Such an analysis method is an investigation of “only the exchange mechanism” for Polanyi. Therefore, it does not let a more comprehensive examination of the double movement as a social phenomenon. This emphasis on the socio-cultural nature also reflects Polanyi’s state theory. In this context, Polanyi sees the state as an institutional structure that manages the conflict between liberal market pressure and social protective demands. Thus, the state will act independently of class interests. In other words, the primary responsibility of the state is not related to supporting especially the interests of the capitalist class. Rather, it is to mediate the conflict between liberal economic pressure and social protection demands, which is extremely contradictory. (Blad, 2008)

On the other hand, according to Stroshane:

“The double movement is Polanyi’s metaphor for class struggle. In market society, Polanyi saw the class struggle as a triangle of class forces: the middle (or trading) classes, the working classes (closely approximating Marx’s bour-

geoisie and proletariat), and the peasantry/landed aristocracy (class residue of feudal producers and landlords). Their interests lay with, respectively, the protection of productive organization (in terms of protecting both profit and price), protection of family and human life itself from exploitation, and the protection of agrarianism and landed property. Narrow class interests asserted in a social struggle cannot offer a satisfactory explanation for any long run social process, says Polanyi. The process in question may determine the fate of the class itself (as in deskilling of work through computerization, or through enclosure of common lands surrounding villages), and the interests of given classes determine only the aims and purposes of their struggles, not their potential for success in struggling". Strohane (1997:107)

In the double movement these class forces both progressed and got hindered with the expansion of the markets. Polanyi saw the classes doing business as the class maximizing the machinery production and the market system. "...if the rise of the industrialists, entrepreneurs, and capitalists was the result of their leading role in the expansionist movement, the defense fell to the traditional landed classes and the nascent working class." (Polanyi, [1944] 2001:162)

Polanyi's Historical Diagnostic Error

1980s proved Polanyi's thesis of great transformation to be wrong. Polanyi, in a sense, made a historical diagnostic error. The post-1945 model was abandoned and foundations of new international work division were laid. It became clear that post-war "golden era" was a memory and a permanent crisis was experienced once more. (Bonefeld and Holloway, 2007:31) The acceptance of welfare state Keynesianism was a proof showing that markets were not in a self-regulating natural order. Keynesian social state policies established a strong connection between the state and masses. (Turhanlı, 2013:17) According to Foucault, special power technique of modern western state is "pastoral power". This means it has the function of a shepherd over the masses. (Foucault, 2011:65) Welfare states, on one hand, institutionalized their aids, and on the other hand, they regulated the operation of the markets by implementing "the rules imposed by economic rationality". Therefore, welfare state "was a project for capitalist production and accumulation irrationality to be restrained by the rationality of the laws." (Turhanlı, 2013:18) Additionally, according to Pierre Rosanvallon, "a welfare state aims to decrease inequalities without touching the system that creates and reproduces inequalities." (Rosanvallon, 2004:21-34)

The oil shocks of 1970s and changes in the international economic system along with the institutionalization of WTO in 1995 caused a profound effect about how protective demands would be met in the change of legal authority. (Blad, 2008) Following

the privatization, deregulation, tax reductions and downsizing of the state beginning in 1980s, financialization phenomenon spread to the whole world in the second half of the 1980s⁴. In fact, abandoning the Bretton Woods International Monetary System in the beginning of 1970s was a response to the increase in monetary capital separated from labor exploitation. (*Bonefeld, 2007:70*) Due to new regulations, all the impediments facing the expanded reproduction of the capital were removed and complete circulation of finance capital was provided. Social state implementations were collapsed step by step without any impediments. Moreover, neoliberalism wave starting in the early 1980s must be defined as “*a certain kind of intervention to politically shaped economic and social relations managed by competition.*” (*Dardot and Laval, 2012 [2009]:65*) Jessop (1993) suggested a definition related to the large-scale and structural (from Keynesian welfare state applications to supply-side policies) shift during this period: “Schumpeterian Workfare State”. Schumpeterian state is neoliberal since it clearly provides a political look for the post-fordist accumulation regime. It is related to the expansion of the economic and social reproduction of capitalism. Jessop expressed this situation as “accumulation regime + mode of social regulation.” (*Jessop,1993:8*)

When considered from this aspect, as marked by Polanyi, the continuity of the state activities is essential regarding the emergence of market economy. “*Free markets depend on the power of the state. Evolution of free markets is of vital importance both for the proliferation and concentration of certain forms of state power.*” (*Harvey, 2011:221*) For example, Margaret Thatcher used the power of the state to activate the market mechanism in England. The government used instruments such as police violence and close surveillance of academic research to break strikes. This situation is the fundamental conflict of neoliberal political economics as Polanyi stated clearly. On one hand, protection and proliferation of the state power is of vital importance for the free market; on the other hand, *free markets undermine the state power*. Protection of the state power in terms of the operation of markets necessitates the deviation of the markets operating freely. (*Harvey, 2011:232*)

On the other hand, American economy faced the hardest crisis with the financial crisis starting with the mortgage credit explosion of the low income group in the late 2007. Rescue operations, monetary expansion policies, on one hand, and restrictions for the transfers to poor people, on the other hand, caused the narrowing of the labor income. With the increasing unemployment and decreasing incomes, the crisis has turned into a long term crisis. It is now understood that the crisis has become a

4 The field of finance is the main field in which capitalism crosses its limits regarding time and space. As Harvey stated, “*The accumulation of capital has always been a profoundly geographical affair. Without the possibilities inherent in geographical expansion, spatial reorganization and uneven geographical development, capitalism would long ago have ceased to function as a political-economic system.*” (*Harvey, 2011:40*) Additionally, according to Harvey, who assigned much more meaning to the arguments that a new globalization era was about to begin with the information revolution, “*financial deregulation could not have occurred without the information revolution.*” (*Harvey,2011:85*)

characteristic specific to capitalism rather than a periodical crisis. The meaning of this process is that it causes deterioration in income distribution in the US economy and entire world. Table 1 shows the 1993-2012 course of the deterioration in income distribution in the USA. It is seen that 14-year period is shown in five subgroups. Accordingly, during the period 2009-2012, average real income per family was 6% with a modest increase. Between 2011 and 2012, average income was 4,6%.

However, earnings were unequal. The income of the top 1%, known as those with the highest income level, increased 31,4%, whereas the income levels of the rest of the population (99%) increased only at the rate of 0,4% between 2009 and 2012. Therefore, during the first three years of economic recovery, it is understood that 95% of the income is earned by the top 1%. In 2012, average income of the top 1% increased rapidly and reached 19,6% of the national income. The income level of the bottom 99% only increased at the rate of 1,0% (Saez, 2013). This rate is similar to the table related to the income distribution of the USA after 1928.

Table 1: Real Income Growth by Groups

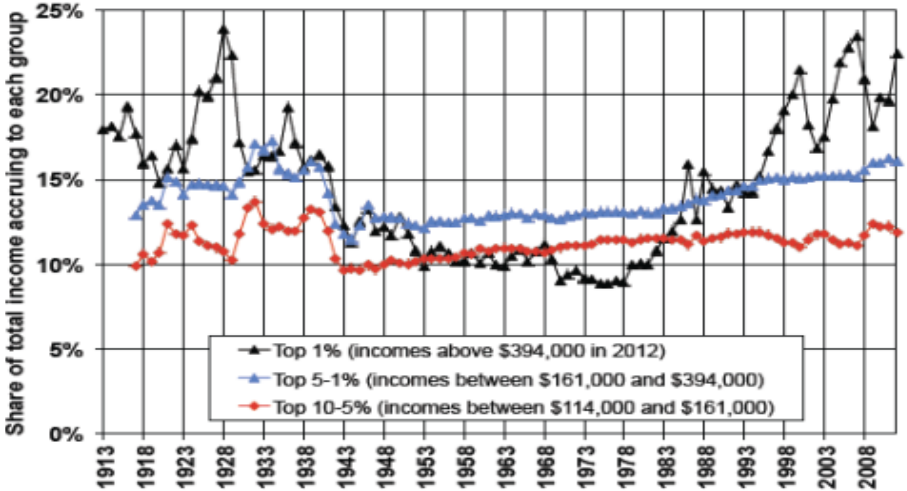
	Average Income Real Growth (1)	Top %1 Incomes Real Growth (2)	Bottom 99% Incomes Real Growth (3)	Fraction of Total Growth (or loss) Captured by Top 1% (4)
Full period 1993-2012	17.9%	86.1%	6.6%	68%
Clinton Expansion 1993-2000	31.5%	98.7%	20.3%	45%
2001 Recession 2000-2002	-11.7%	-30.8%	-6.5%	57%
Bush Expansion 2002-2007	16.1%	61.8%	6.8%	65%
Great Recession 2007-2009	-17.4%	-36.3%	-11.6%	49%
Recovery 2009-2012	6.0%	31.4%	0.4%	95%

Source: Saez, Emmanuel (2013), “Striking it Richer: The Evolution of Top Incomes in The United States (Updated with 2012 Preliminary Estimates) <http://elsa.berkeley.edu/~saez/saez-UStopincomes-2012.pdf>

Figure 1 shows the shares the top three income groups get from the national income in the USA. During the great recession 2007-2009, real income per capita fell back to 17,4%. Since the great depression, this is seen to have been the highest two-year fall. The top 1% decreased at the rate of 36,3% (Table 1). As can be seen in Figure 1, most of the fluctuations in the top three groups result from the fluctuations in the biggest slice. In the development of the income inequality created in the US economy, it is understood that the highest income group plays a central role in income distribution.

Destructive effects of the problems of the 2007 crisis on societies accompany real wage narrowing and increased borrowing of the labor class. “Indeed, this crisis is a historical crisis since it has all conflicts of the increasing financialization process that started with the Fordist accumulation model crisis.” (Marazzi, 2009:43) Dani Rodrik, a well-known development economist, declared after the crisis that, “the globalization consensus is dead”. With reference to the assumption calling it dead is likely to be early and since the globalization consensus has weakened, is the state returning to the heart of economic life particularly in response to the global crisis as predicted by Karl Polanyi? In other words, is it a Polanyi moment which is being experienced? Or can it be said that we are at the second stage of double movement because of the increase in post-crisis social movements?

Figure 1: Decomposing the Top Decile US Income Share into 3 Groups, 1913-2012,



Source: Saez, Emmanuel (2013), “Striking it Richer: The Evolution of Top Incomes in The United States (Updated with 2012 Preliminary Estimates) <http://elsa.berkeley.edu/~saez/saez-UStopincomes-2012.pdf>

The weakening of globalization consensus does not prevent the state from returning to finance. This returning can be limited, but neoliberal rules and institutions have now become integrated in economies. During the capitalist reproduction process, there is a work division between industrial capital and interest bearing capital and these two processes are mutually interdependent.⁵ (Özgür and Özel, 2011/2:200) Ac-

⁵ Due to the work division between these two components of the capital, interest bearing capital causes the boundaries of reproduction process to expand and the development of productive forces to accelerate. See Laibman (2010) and Tabb (2010) for various approaches about the relationship between interest bearing capital and industrial capital

According to Marazzi, there is impasse which is more practical than theoretical before everyone's eyes: *"The impossibility of elaborating strategies to overcome the crisis and applying to the economic recovery precautions, which, on the one hand, presuppose the rescue of finance, but on the other hand, necessitate the very possibilities of economic revival."* (Marazzi, 2009:40) Since there are no alternative principles such as abandoning free market principles, a new consensus is not a matter of discussion. (Wade, 2009) There were and are movements against neoliberal transformation after 1980 in many countries. Although these movements were not directly in the form of a labor movement, and there is no certain framework about economy, they express the masses seeking alternative ways to organize social relations.

Under these conditions, as predicted by Polanyi, the return of the states to the heart of economy and embeddedness in social relations again does not seem possible. On the other hand, *"the existence of state as a form of capitalist social relations depends on the reproduction of these relations: therefore, the state is not only a state within a capitalist society but a capitalist state; because its lasting existence is strongly connected to the establishment of the reproduction of capitalist social relations as a whole."* (Hollway, 2007:140)

Conclusion

When we revisit Polanyi's theoretical explanation today, an interpretation can be made from its analysis of economy disembedded from society and social disharmony. Accordingly, the last sixty-year evolution of the capitalist system supported Polanyi's basic proposition. His basic proportion is that functioning of market system disembedded from society has been very destructive for human, nature and the market itself. Society stayed behind the market, the subjection of human existence to nonsocial mechanism caused the market to be embedded in the society, not the society to be embedded in economics. Today markets are much more disembedded from the social relations. As the conditions in the 1920s caused the Great Depression, post-1980 global capitalism caused the 2007 crisis. These crises of capitalism became non-periodic and had a characteristics specific to capitalism. Therefore, 19th century is not an exceptional situation envisioned by Polanyi. The conflicts arising from the nature of capitalism must be understood. It is not likely for the society to be protected in the way Polanyi expresses. Because Polanyi keeps the state responsible for this protection, but the state has been capitalized.

Since land, labor and money and even knowledge are not essentially commodities and they subject to the market forces more and more directly, they continue to be destructive for the people, environment and societies. Therefore, the conflicts be-

tween the market and society reveal a double movement in the social structure. In this sense, although Polanyi's views continue to be a source of inspiration, today that the international financial system has a deeper place and has been institutionalized is an impediment for the start of the second stage of double movement to begin. In other respects, it can be concluded that in Polanyi's thesis, a liberal state is necessary for the existence and sustainability of the self-regulating market, and protective actions work for the sustainability of the markets. Thus, it is very misleading to analyze economies over "embeddedness". Under the effort of making it "embedded", the state supports and anti-market protection efforts are not so important.

Individual interest-based human behaviors and relations in the market society are determined by economic rationality. Since the relations that make social life possible are not economic-based, society surrenders the logic of the market and stays behind it. With this decline, human life is directed by the market and it means that, with the surrender of human existence to a nonsocial mechanism, the market which is disembedded from the society gradually dominates it. (Turhanlı, 2013) Particularly, the demands imposed on society by financial capitalism further reinforces the social recession under a growth model sacrificing social harmony and life quality for distribution.

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3

AN EVALUATION OF IBNI KHALDUN'S THOUGHTS OF THE ECONOMICAL WORLD

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Abstract

Ibn Khaldun is a social theorist and sociologist who is the first original thinker in the links of historical events, ethnic, cultural, political and economic conditions. Ibn Khaldun's philosophy of history, and the emergence of sociology as a science has pioneered a contemporary sense. In the world of thought, especially the work, which can be qualified as an intercultural and forecast for the future, "Muqaddimah" groundbreaking ideas voiced by the unique life experiences and age, according to one of the forward thinkers in the history of mankind has reviewed Ibn Khaldun. During the period of economic processes, the basic lines of Ibn Khaldun today announced an anticipatory manner. Economics, politics, society and the state, expressing an important factor in the light of modern economic thought has many detections.

Introduction

Ibni Khaldun, with his scientific accumulation that shed light on the future aiming to discover the reality in the relationship between human and universe, is a thinker who performed a different method from the previous thinkers to enlighten the social facts and events. The thoughts and theories that Ibni Khaldun developed about history of humanity are indications of the fact that he was a theorist of civilization. Understanding human is the core of existence. Acting upon the principal "*understanding universe is understanding humanity, understanding humanity is understanding the universe*", Ibni Khaldun has a holistic system of thoughts on the relationship between human and universe.

Ibni Khaldun spent his life struggling both politically and executively. Unique life experiences and his foreseeing evaluations compared to his age made Ibni Khaldun one of the most important thinkers in the history of humanity. The solutions that he offered with an authentic point of view for the social and political problems occurred during the process of social development and upheaval ages before are the result of the fact that Ibni Khaldun, being an authentic theorist of history and sociologist, was able to evaluate the historical events in social, ethnical, cultural, political and

economical perspectives.

Ibni Khaldun pioneered in philosophy of history and sociology's coming up as a knowledge in modern terms. He marked a new epoch in history of thought, especially with his views he mentioned in '*Mukaddime*' that is considered to be a cross-cultural and timeless treatise. Ibni Khaldun clarified the economical processes of today with a foreseeing style in his age and this led Ibni Khaldun's opinions to be examined academically. Ibni Khaldun emphasized that economy is an important element in politics, society and government and determined lots of points that will shed light on the thought of economy today.

Following a brief examination of Ibni Khaldun's life, the conceptual framework of his contribution to the thought of economy will be analyzed in this study. Additionally, the role of economy during the social upheaval and Ibni Khaldun's famous work '*Mukaddime*' which is considered as a classic of economic thought, will be analyzed in general terms. And separately, the role Ibni Khaldun attributed to economy during the process of social development and upheaval, the term "*asabiyyah*" (action group feeling) which came out within the context of the foundation of the state and the thought of economic progress will be discussed.

The Conceptual Framework of Ibni Khaldun's Contribution to the Thought of Economy

"Those who impose a ban on science or who keep the people busy with lies are the worst enemies of mind and humanity." Ibni Khaldun

Ibni Khaldun is the first thinker in the history of thought of economy to suggest that the value of the product and service produced is equal to the value of human labour. (*Khaldun, 1988:159*) After examining Ibni Khaldun's economic thoughts, it won't be wrong to name him as the pioneer economist. And the reason for this is, Ibni Khaldun mentioned the social division of labour before Adam Smith, the theory of value before David Ricardo, the theory of population before Malthus, and state's role in economy before John Magnard Keynes. (*Falay, 1978: 60*) 500 years before Keynes, Ibni Khaldun formulated that an increase in the total demand causes an increase in production and the level of employment until reaching the exact level of employment. Assuming that production and employment volume depends on the aggregate demand level, Ibni Khaldun mentioned that the fluctuations in the elements that form the demand will cause economic instability and thus, very similarly to Keynes's opinions, defended that the government has to interfere to ensure economic stabilization. (*Boulaki, 1971:1106*)

Ibni Khaldun developed the basis of the theory of international trade saying that social division of labour also exists among different societies as well as the same society. In the present case, the relationship of division of labour among different countries or societies is accepted. Therefore, Ibni Khaldun is one of those who first mentioned Commercial Law of Markets. (*Falay, 1978: 60*) Ibni Khaldun's way determining the dependence of social relations on economical bases, his opinions about division of labour, mode of production, relations of production and the role of labour in the value of the products also explain his method of economic thought. (*Azarkan, 2003*) In this section of the study, Ibni Khaldun's contribution to economic thought will be examined within a conceptual framework.

Production and Division of Labour

"God created man, knocked him into a shape that he cannot survive and resume his life without food, and caused to learn by heart to look for the food with his natality and manage it with the power endued to himself." (Khaldun, 2004b:213)

According to Ibni Khaldun, the task of man on earth is to produce and each value produced consists of human labour. In other words the main source of production is human labour and the goods and capital is the value of human labour. Ibni Khaldun believed that in interbedded fields such as stockbreeding, agriculture and mining, the role of human labour shouldn't be ignored. (*Boulakia, 1971:1106*) According to him the only reason for profit is labour. (*Khaldun, 2004b:380*) The element that canalizes people to economic effectiveness is the desire for profit or gain. There are two things that determine the value of goods. The first one is the labour made for the production of the goods, and the second one is the demand for the goods. (*Arslan, 1997:153*) According to Ibni Khaldun there are two aspects of labour and these are labour value and residual value. In the aspect of labour value it is inevitable to work and labour in order to fulfil the needs and this is the only way of making profit. Human labour is used for the purpose of production and the main objective of the production is to earn the keep. The residual value created by labour comes up during the process when people produce goods and service for both their own needs and others' needs. (*Falay, 1978:29-32*) Profit becomes a means of support only if it is used for the needs of the one who derives that profit. On the other hand capital is the profit much more than the need and is not used. (*Candan, 2007:241*)

"The power of only one person is not enough to acquire the food he needs. He cannot procure even the minimum amount of it. In that case, the power of many ones of the same genre should be gathered so that the needs and

maintenance of himself and the others can be acquired. With the help of co-operation, more than enough goods and maintenance is originated to fulfil the needs of the ones who take part in production.” (Khaldun, 2004b:213)

According to Ibni Khaldun, labour has an important role in production. But production has to take part within the scope of social organization or division of labour. Specializing is important in the production of the goods or the service and it enables saving time and high-quality production during the process of production. According to Ibni Khaldun, this joint labour production compared to individual production leads to surplus value. This surplus value provides the source of the civilized life, the development of the cities. It provides the effectiveness of the human labour and economical development, and this effectiveness is similarly mentioned by Adam Smith. According to Adam Smith, the wealthiness of a country is equal to multiplication of the productivity rate of the labour in that country and the rate of productive labour. (Özel, 2006) Ibni Khaldun remarked the similar opinions with Adam Smith centuries ago. This is a proof of his scientific mastership.

According to Ibni Khaldun, together with the division of labour, each city specializes in some idiosyncratic goods and service. And this leads to a decrease in cost and also a high-quality production. By means of this, outmaneuvering cities take the cost of transportation and the other costs into consideration and do business in other cities. (Oweiss, 2003)

Value, Money and Cost

According to Ibni Khaldun, the value of the goods is equal to the amount of labour and the value of the labour constitutes the profit. The profit gained consists of only the value of the labour. (Boulakia, 1971:1109) The value of the money shouldn't change because the measures of capital and wealth is money. According to Ibni Khaldun, the measures of the value is silver and gold. Ibni Khaldun defended the idea that the values of these two generally acceptable mines should remain stabilized and also the institution that issue them shouldn't be influenced by the political and economical fluctuations, and this idea is very similar to the modern opinions. (Boulakia, 1971:1110-1111) Apart from this, his idea of a worldwide unity of money, which is quite different and may be capable of solving the problems today, is another proof of his scientific mastership.

Ibni Khaldun clarified the cost within the scope of law of supply and demand. According to him, the costs of the goods are determined by supply and demand. But

there is an exception of silver and gold, and they are the measures of money. The price fluctuations in the market determine all the other goods and services. As demand increases, the price increases, and as it decreases the price also decreases. (*Boulakia, 1971:1111*) There are some social elements that affect supply and demand and Ibn Khaldun discussed the topic in a dynamic framework by studying these social elements. He mentioned about the elements that affect the prices; and some of these are the population of the country, whether the state is in the market or not, wealthiness and the level of welfare of the region. (*Oweiss, 2003*)

Price and Profit

Ibni Khaldun mentioned that the prices depend on the law of supply and demand. The increase of the demand rises the value of the labour, and the decrease of the demand decreases the prices. (*Boulakia 1971:1111*) Ibn Khaldun states the reasons for the increase in the prices as follows:

Arts and services are expensive in developed cities. There are three reasons for this:

1. The increase of the needs in cities with a high level of welfare,
2. The jobs that the owners of the labour do and their reluctance to work in someone else's job because of the plenitude of the food products and the convenience of earning their keep in cities,
3. The height of the level of welfare, peoples' need to employ other people and make the artists work in their works and thus they pay much more than their value of labour. (*Khaldun, 2004b:948*)

The evaluations that Ibn Khaldun made about trade show us his opinions about profit. According to Ibn Khaldun, it is a worrying situation that the merchants may sometimes act regardless of moral principles to make much more profit. He thinks trade appropriate to moral values is legitimate and merchants can make profit by taking some risks. The case that Ibn Khaldun didn't consider to be legitimate is to purchase the goods with a low price and stock them and then sell with a much higher price. In this case, putting the goods onto the market when the prices get higher results in profit. The reason why he doesn't consider this profit to be legitimate is that this drizzles the moral values and is a threat for the welfare of the country. (*Oweiss, 2001*)

Tax

To Ibn Khaldun tax plays an important role in determining the price. The reason

why the prices increase in cities with a high rate of taxes is that it increases the cost of the goods. (*Boulakia 1971:1112*) In his view, price, profit and taxes should be balanced. Otherwise, when the prices are too low economy goes into depression and the demand decreases. If the prices are high, inflation emerges. Entrepreneurs encounter some problems like not renovating or enhancing their capital because the profit is too low. If the profit is high, the inflation might lay an obstacle for the entrepreneurs. If the taxes are low, public services are interrupted, but on the other hand higher rate of taxes leads to entrepreneurs' not making investment. (*Ozel, 2006*)

The Role of Economy in the Process of Social Upheaval

"Past resembles future more than water resembles water." Ibni Khaldun

Throughout history, in the process of social development and upheaval, human has necessarily required food products and other basic necessities to be able to maintain his life. Ibni Khaldun appraised human beings' ability of engaging in economic activities as a characteristic that differs them from other animals. He thinks, animals can easily find everything they need around their neighborhood without engaging in a production activity. And he adds that humans, on the other hand, have to go through a production process to fulfil their needs. (*Kozak, 1999:22*)

"Human differs from all the other animals with some certain characteristics unique to only himself. What differs human from all the other animals and honors him among all the other creatures is science and industry that are the outcomes of idea and thought." (Khaldun, 2004b, 2. Volume:97)

Ibni Khaldun stated that God ordered people to engage in economic activities to meet their needs and that it is a religious duty. (*Kozak, 1999:22*) To him, economic activity is a basic, compulsory and natural activity that people can not abandon. Human cannot be considered free of economic activity. (*Boulakia 1971:1106*) Ibni Khaldun took religion and economy interbeddedly and acted conveniently to this tradition which was presented before his age, in his age and also later continued up to partly Physiocrats and Classics. (*Kozak, 1999:22*)

"The differences that exist between the societies and tribes occur because their economic conditions and the ways they meet their needs are different; the origins of different opinions, ideas, morals, customs and traditions should be searched within these differences." (Khaldun, 1988:129-147) The relation between 'Bedouin' (desert lifestyle) and 'Hadari' (town lifestyle)^{1*} consists of the relation between lower and higher stages of

1 * There were two different ways of life (Bedouin and Hadari) in the Arabian Peninsula before

the social development. At the lower stage, primitive production tools, which were shaped by stockbreeding and agriculture, were used and very slightly different production stages and low standards of living came into existence. At the higher stage, where advanced production tools were used, we can talk about a change in the direction of economic activity based on complexity and division of labour which is a result of some facts like a huge amount of labour is intensified at a certain point, villagers migrate to cities and cooperation of people in the process of work. To Ibn Khaldun, economic activities have an important role in the development of the history of humanity and forming the social and economical structure. In his view, the differences between the ways of maintenance of people and the economic activities they deal with are the elements that compose the differences and the range of the situations of the societies. (*Khaldun, 2004, 1.v:302*) To him, different ways of production and economic relations create different social structures. These economic activities take shape as a consequence of interaction of the people. (*Kozak 1999: 21-22*) In other words, according to Ibn Khaldun, the impact of the economic structure on social events is quite significant. Ibn Khaldun's these opinions about the role of economy in the process of social upheaval are still at issue and discussed in terms of social sciences today.

Even though his opinions about this subject remind us the materialist superstructure and substructure, in fact he takes the superstructure and substructure reciprocally and states that each structure affects and shapes the other. And also the fact that Ibn Khaldun is on the side of Islamic traditions proves that he is not on the side of Materialism. (*Kozak 1999:29-30*) Ibn Khaldun believes that economic structure affects the morals and economic structure should be regulated with regard to moral values.

A Classic of Economic Thought: Mukaddime

"Ibn Khaldun designed and proved such an amazing philosophy of history in Mukaddime that no one, at any time, at any country has ever created such a gorgeous masterpiece." (Toynbee, 1962)

'Mukaddime' can be considered as a book of warnings. The topic of this great work by Ibn Khaldun was Kitâbül-Iber (book of warnings). The ethymology of the word iber ('-b-r) is common in all Shemitic languages like Hebrew, Assyrian and Arabic and it means going through or past something to the other side. It has another meaning which is getting inside from the outside. And that is being aware of the spiritual reality. (*Mahdi, 1964:65*) 'Mukaddime' is the introductory chapter of Kitâbül-Iber and this

Islam. Hadaris lived in towns and cities whereas Bedouins lived as nomads in tents in deserts and oasises.

work has guided lots of scientists for centuries. The reason why it took a very long time for the economists to take the turn was that the discipline of economy fought its own war of independence at a very later stage. (Ozel, 2006)

He added a very different dimension to the discipline of history with lots of common laws that he reached starting from the events experienced in North Africa during Middle Age. (Candan, 2007:236). 'Mukaddime' is an extraordinary work that puts the historical events in an order and aims to present the reasons for these events. The work is mainly about politics, religion, science and education. Economic events are also comprehensively analyzed in the book. Ibni Khaldun's ideas, opinions and analysis about several basic topics, which the discipline of economy separately deals with today, makes 'Mukaddime' a classic of economy. (Ozel, 2006)

Two contemporary writers said, a work has to fulfil at least six requirements to be called "a classic of economy":

1. The work has to develop the methodology of that discipline and by using this development it has to present new insights. In other words, it has to make it possible to penetrate more deeply to the economic facts.
2. Whether in the form of the thesis or the anti-thesis, the work has to involve previous opinions and understandings on the same field.
3. The work should be able to be used for economic issues as a source material even by those who are not economists.
4. It should be able to be used as a source by economists and other social scientists for wider contexts such as methodology, philosophy and politics.
5. It must be proved that the work has influenced the research agendas apart from economy.
6. The influence of the work should be cross-cultural and timeless and it should evoke desire to re-read at any age. (Gift ve Krislov, 1991:27-32)

When these requirements are applied to Adam Smith's famous work '*The Wealth of Nations*' it can be concluded that the work is a classic of economy. There is a period of 400 years between Adam Smith and Ibni Khaldun, there are differences of time and place between them. Hence, regarding the significant distinction Joseph Schumpeter points out between economical outlook and economical analysis in his well-known work, (Görgün, 1999) it can be noticed that in Ibni Khaldun's work there is an economical outlook rather than economical analysis. Including Ibni Khaldun's opinions which will make economical analysis possible in the second category regarding the differences between time and place, he can be called a "Schumpeterian economist". (Ozel, 2006)

Applying all these concerns one by one to ‘*Mukaddime*’ requires a comprehensive study. When ‘*Mukaddime*’ is examined in general terms, we can see that it is a classic of economy. ‘*Mukaddime*’ developed a new methodology in social sciences. In this work, İbni Khaldun developed a new learning apart from historiography. (Ozel, 2006) “*Umran*” is a discipline which examines the stages of societies in historical process, the relationship between economical state of a community and its social and political institutions. It also makes a study of the civilizations in their stages of emergence, growing, developing, maturing and collapsing and examines the similarities of societies in the point of going downfall after peaking up the permanent settlement within the frame of cause and effect relation. According to İbn Khaldun’s science of umran, an individual, that is a social creature intrinsically, belongs to a society. S/he should develop in a society. In addition, an individual tends to specialize in a profession which s/he does well and has become skilled.

İbni Khaldun’s ‘*Mukaddime*’ consists of a preface, an introduction and six chapters.

In the first chapter, he depicted social matters such as prosperity, civilization and industry and the factors which are influential in civilization development. He told the effects of climate on people’s character and moral as the place where they live and its climate decides people’s means of living and income.

In the second chapter he mentioned bedouin and hadari way of life and the states of these lifestyles, asabiyyah which has an important place in İbni Khaldun’s system of thought, riyaset (presidency), sovereignty and losers’ imitating winners.

In the third chapter, he mentioned states, emperors’ and sultans’ clothes, ranks, international wars, taxes, prices, despotism, civilization and emergence, division and upheaval of states, state government and the duties in governing state and caliphate.

In the fourth chapter, he addressed issues such as prosperity, the establishment of states, cities and prayer halls, lifestyles, work facilities and spoken languages in cities and towns.

In the fifth chapter, he told various work fields such as agriculture, trade and industry and the circumstances that emerge in these fields, arts and the effects of arts on human morals.

And in the sixth and last chapter, he mentioned sciences and types of sciences (along with religious sciences such as interpretation, recitation, hadith, fiqh, science of Islamic inheritance, kalam, natural sciences such as geometry, astronomy, logic, medicine and agriculture) teaching and teaching methods,

child education and language teaching. (Güden, 2010:21-22)

'*Mukaddime*' consists of Ibni Khaldun's knowledge which he internalised on observations. (Koştaş, 1988:94) He read the books by understanding them. To confirm this issue, he said:

"To be a scholar in any science, one needs to distinguish the initial knowledge from the rules of that science and the problems that are being examined in that science, in other words it is possible by extracting secondary problems from total methods. Unless skills about these matters are acquired in any science, the person who deals with that science cannot be considered to have understood and comprehended it thoroughly. This skill is different from comprehension and memorizing." (Khaldun, 1986:442-443)

'*Mukaddime*' involves a wide range of cultural accumulation so it is a difficult and problematic process to examine it. To solve this problem, it is essential to deal with each topic in '*Mukaddime*' separately. Also, the integrity of the relations of subjects and their interaction should not be ignored. (El-Husri, 1991:223) In fact, '*Mukaddime*' was written in an analyzing and uniting way. (Lacoste, 1993:178) Ibni Khaldun analysed the emerging, rising and collapsing of civilizations and cultures in his work. The ideas that Ibni Khaldun presented in '*Mukaddime*' could not be understood for centuries. However, an increasing interest and admiration towards Ibni Khaldun in modern societies in recent years has accompanied a detailed research into '*Mukaddime*'. The fact that the ideas that Ibni Khaldun presented in '*Mukaddime*' still maintain their importance and value has increased the interest towards the work.

Doctrine of State and the Notion of Asabiyyah

To Ibni Khaldun, the most basic notion in the process of a state's foundation is asabiyyah. Ibni Khaldun bases the formation and continuation of the social unity on this notion which comes from the origin "asabe" meaning "to keep, to depend." Different researchers explain the meaning of this notion as "bond of intimacy", "sense of brotherhood", "sense of solidarity", "common spirit", "social harmony", "social solidarity", "idea of nationalism", "military spirit" (Hassan, 1998:205-208) and within Ibni Khaldun's system of thought it is the basic incentive element of the community's progression from primitivity to civilization. Asabiyyah is a force that makes it possible to form and maintain a social and juridical system and progress from primitive style of social life to founding a state and civilization. (Yıldız, 2010:41) Thanks to bonds of asabiyyah, state is an institution that hinders interior and exterior attacks and dominates the whole society. In other words the objective and result of asabiyyah is founding a state. (Khaldun, 1988:353) The most basic bond that forms asabiyyah

is blood tie or bond of lineage. Thanks to the blood tie which is a natural bond for which people take action to protect their relatives.

In Ibni Khaldun's view there are two types of asabiyyah:

Asabiyyah of Lineage: *This type of asabiyyah, which is blood based, is enough for a society to found a state.*

Asabiyyah of Reason: *After founding a state blood tie is not enough and it is replaced by asabiyyah of reason which means commitment to religion and dynasty. (Khaldun, 1988:125)*

In asabiyyah of lineage it is inevitable to come from the same descent and be cognates. In asabiyyah of reason this is not required. To Ibni Khaldun, asabiyyah of lineage was common among primitive societies and bedouins whereas asabiyyah of reason was common among hadaris. (Khaldun, 1988:125)

Asabiyyah is very common in lines of descent with blood tie. To Ibni Khaldun bond of family turns into bonds of tribe and nation in time. A person whose relative is exposed to an attack considers this attack for himself and reacts against the one who attacks. But this case is not perpetual, in a tribe which grows up absorbing the other kins through war, peace and marriages, the group with a stronger bond of asabiyyah takes the lead in communities that refuge to another tribe for different reasons, a new bond of asabiyyah emerges as a result of master-slave relations. (Gurkan, 1967:233) The conflicts which at first solved by the elders of the tribe causes grouping and conflicts within the group as the tribe gets larger. In this case, the group with the strongest bond of asabiyyah takes the control over the others. (Stowasser, 1984:176)

There are some conflicting or different opinions about the description and function of asabiyyah in 'Mukaddime'. The reason for this is that Ibni Khaldun doesn't use asabiyyah as a technical term. (Mahdi, 1964)

The Notion of asabiyyah builds up the basis of Ibni Khaldun's view of state. (Azarkan, 2006) Transforming from cognate communities to civilized communities and from organization of presidency to regency, with Ibni Khaldun's definitions, transforming from bedouin lifestyle to hadari lifestyle and from presidency to regency follows the same process and similar in many ways. State founded under favour of asabiyyah is a product of civilization but it also can develop and demolish the civilization. (Hassan, 1998:285) In Ibni Khaldun's view communities, just like all the other natural beings, are born, develop and die. Ibni Khaldun distinguished the society and state which has the identity of an organism that is born, grows and dies, for the first time and he mentioned the necessity of social life for people. (Ozkalp, 2001: 56) Ibni Khaldun draws an analogy between emerging, developing and ravelling of a state after reaching the peak and emerging, developing, rising and ravelling of a political dynasty.

He gives each state approximately 120 to 130 years to survive. During this period, a state goes through various attitudes and some regenerated aspects. The attitudes and aspects in a state are usually examined in five main aspects within the context of Ibni Khaldun's famous socio-political loop theory called 'The Theory of Circulation of State' (Kallek, 2004: 81) which is about the birth, development and the collapse of the dynasties. (Khaldun, 1988:505, 514-517)

The first attitude: *Period of victory, succession, triumph and invasion*

The second attitude: *Period of regency*

The third attitude: *Period of relief and ease*

The forth attitude: *Period of persuasion and peace*

The fifth attitude: *Period of wastage*

By force of Ibni Khaldun's teaching, when a state is demolished another state might be founded. This new foundation accrues when the governors of the cities at the distant parts of the state, whose borders get smaller and so turns to center, seek independence or when one of the tribes neighbor to the old state gets out of the state. The newly founded state, just like the previous one, will go through the same processes and end its life. (Bursalioglu, 2007:49)

If we want to make a brief evaluation of Ibni Khaldun's views about the mission and responsibilities of the state, following his teaching on birth, development, change and destruction of the state, we can mention the following:

To Ibni Khaldun, government expenditures are the greatest spending power in the society and thus government expenditures is an encouraging and directive element in the development of production. (Khaldun, 2004:74-75) If there is decline in the state's income and government expenditures are retrenched, this does not only put the state and the ones who are paid by the government on the spot, the economy is completely influenced by this. As the spending of the state and the ones paid by the state composes the important part of the demand in the market, a stricture caused by them will immediately influence the total demand and this will end in a depression in the market. If this situation continues marketing will decline, production will slow down and consequently public revenues will decrease. (Khaldun 2004b:289-291, Boulakia, 1971:1115-1116) The views of Ibni Khaldun remind us the economic crisis following the strictions in the total purchasing power caused by the decline in the government expenditures in capitalist countries and the Keynesian measures taken to get rid of this situation. It is quite interesting that this opinion was brought forward by Ibni Khaldun centuries ago.

It is clear that Ibni Khaldun, in parallel with general Islamic tendency, keeps the tasks

of state quite wide and takes every area under the supervision and surveillance of the state correspondingly with the understanding of social state. This is a traditional state that keeps itself responsible for ensuring the relief and happiness of every individual that needs to be protected. (Kozak, 1999:248-249)

“Protecting people and doing favours to them are the reasons for being of the rulers. Pursuing their economic situations and taking care of their needs underpin the basis of unity of the people and the rulers.” (Khaldun, 2004b:476)

Even though Ibni Khaldun lands the state with a large scale of duties and responsibilities both social and economical, he is totally against the idea that the state should deal with economic activities such as trade and agriculture. He believes that the state makes use of the great economic advantages and the political power in its hand and so causes unfair competition against the other merchants and farmers. The merchants and farmers who cannot resist this competition may have to withdraw from economic activities. This unfair competition and unbalanced power brings along some problems in the society and the production side of the economy is influenced negatively and consequently economic life comes to a deadend. (Toku 2002:119-120) In short, Ibni Khaldun bases on the private enterprise and opposes the state and the notables in the state to do economic activities. (Kozak, 1999:249-250) To him, if the state is contended with the tasks like supervision and regulation, this will give the best result both for the welfare of the people and the government revenues. (Kozak, 1999:248-250)

Thought of “Economic Progress” Within the Scope of Understanding Economy

The process of economic progress forms a welfare society integrating all the socio-economic and cultural facts. For economic progress it is significant that one has to have self-confidence and make future plans. Actualization of this depends on resolving financial problems, increasing the sense of freedom and independency and achieving economic independence in accordance with constantly increasing income. Economic progress is a process and there are some elements that makes this process accrue more effectively. One of the most significant elements that supports the process of economic progress is the values in the society. Because economic progress is not out of the radius of the other elements that make up the society. In this section of the study, the elements that, in Ibni Khaldun’s view, will influence the economic progress will be discussed as he attaches great importance to the values in economic progress (Erol, 2012: 50-51) and he examined the economic structurings and social aspects in his own period.

Political Power

According to Ibni Khaldun, the foundation of a state depends on the existence of *asabiyyah* in transition from nomadic life to modern civilisation. However, *asabiyyah* is not enough by itself for the perpetuity of the state; moral values, as well as *asabiyyah*, are essential to provide political stability. In Ibni Khaldun's view when *asabiyyah* is ignored, when rulers degenerate and when moral values are abandoned the state is driven to downfall.

In every issue he deals with economically, Ibni Khaldun emphasizes the significance of moral values and makes these his basic principle. Moral values should be there starting from the phase of foundation of the state. Because we can easily see the existence of commitment to moral values and a strong bond of *asabiyyah* in the foundation of powerful civilisations throughout the history.

To be able to comprehend the states and the factors that cause their foundation and collapse throughout the history, the economic activities of that state should be examined. Political stability is an important factor in economy of the states. Political routes and economic routes of the current states should affirm each other. The first negative reflections of the periods of political conflicts have always been on the economic activities. (*Ozkılıç, 2007:6*)

A Secure Environment

To Ibni Khaldun, the need for providing security under the sway of an authority against attacks have obliged people to communal life. Thus, the objective of the state with the power should be providing conditions for people to stay away from all the dangers and live in peace.

The reason why people league together in a community is to perform the economic activities by division of labour and protect themselves from the internal and external dangers. An unsecured environment in a country will probably result in negative impacts on the economic activities of that country. For instance, without a secure environment in the country, it will be more difficult to attract the foreign capital. (*Ozkılıç, 2007: 6*)

Division of Labour and Specialization

People play a role in uniting the productive activities during the process of social upheaval and development. This situation is the first definition of a basic concept in the literature of economy: Social Division of Labour. The mutual assistance of people in the production process reveals division of labour. And this can be called the social

organization of production. Social division of labour is the core of society and has a dynamic structure. Division of labour is both the reason and the result of the production styles that occurred during bedouin and hadari lifestyles. As a result of the social organization of production, individuals learn the ways of meeting their basic needs and making profit. The fields where a living and profit is gained are administration, hunting, agriculture and trade. Among these, administration and official duty are not natural ways of living and profit. (*Falay, 1978:22-23*)

To Ibn Khaldun, human is a social creature and cannot live by himself. It is impossible for an individual, who has to live in a society, to meet all the economic needs by himself. Because of this, specialization in production is reached by division of labour in the society and economic activities are carried out in this direction.

The production by division of labour and specialization will always be much more than what an individual can produce by himself. According to Ibn Khaldun, the specialization in the process of economic activities is an element which will motivate the entrepreneurs. By means of specialization, entrepreneurs will have more confidence in the goods they will produce and sell in the future and this will encourage them for more production and trade.

The Role of Labour in Production

In Ibn Khaldun's view, the basic factor of production is labour. One has to work in order to meet the economic needs and to make a living and profit. In other words, performing economic activities is possible with the obligatory involvement of labour. Production is highly significant for an individual. Man has to produce to survive and this can only come true by working. (*Falay, 1978:26-27*)

To Ibn Khaldun, not all of the economic profit can be associated with capital. Labour has a significant role in benefitting from capital and turning this into profit. Human, with his wisdom and physical strength, does the tasks like manufacturing the production tools and raising animals on the fields, with labour. He combines wisdom and physical strength, makes his labour more efficient by potentiating and this is a significant characteristic that distinguishes human from other creatures. (*Erol, 2012:53*)

Commitment to Moral Values

Moral values of the society should be taken into consideration in the process of economic development. It is important to preserve moral values while carrying on economic activities. Moral values shouldn't be ignored in the plans to be prepared for

economic development. If these values are not considered, economic development plans with no social aspects will come out. Because of this, the role of values in economic development is very significant.

To Ibni Khaldun, economic activities have an important role in transition from nomadic life to modern civilization. Besides, the influences of moral values in the process of economic activities are of great importance. He particularly emphasizes that moral values should be taken into consideration for this inevitable interaction process to be healthy and on behalf of the society. Economic life should be regulated according to moral and religious values. Because, the purpose of creation of man is not living forever or living in any way, it is living a terrestrial life with dignity and find salvation after death. (*Ozkılıç, 2007:7-8*)

In Lieu of Conclusion

Ibni Khaldun is one of the thinkers who perceives history as science. He studied the flow of history profoundly and contributed to the writing of his own era which would lead the way for the future. He believed that societies should discover and comprehend their hidden dynamics in order to understand historical events and designated the rules of the science of history accordingly. Ibni Khaldun found out that history has stable rules and events occur in accordance with these rules. Thus, he did not consider history as a discipline which just tells the events but he turned it into a type of science that makes scientific commentary by analysing the events with a critical method. The theory which Ibni Khaldun established upon the cause and effect relation of the historical events occurred in societies, created comparative fact of history among civilizations. Ibni Khaldun clarified the historical events systematically with the philosophy of history that he pioneered and his views that contribute to the modern-day history writing.

Ibni Khaldun handled economy in its connection with human prosperity (umran) and means of subsistence. He examined the production methods of the societies and their stages of transition from nomadic life to modern civilization. To him, as human being is incapable of providing his own needs by himself, he can survive only with mutual assistance and co-operation. Ibni Khaldun who links the development of prosperity (umran) with production stated that the production can be achieved by abundance and range of work load. He emphasized the importance of economic activities in development of human history and constituting social and economical structure. He introduced that the economical relations which emerge during the process of social development constitute a range of social structures and as a result of the generated interaction human characters also take shape.

'*Mukaddime*', an indicator of Ibni Khaldun's scientific mastership, is a work which led to the emergence of philosophy of history and sociology as a branch of science in a contemporary way. '*Mukaddime*' has the characteristics of an instructive work for history, philosophy, sociology, economics and politics. What's more, Ibni Khaldun lived in the 14th century and got the attention he deserved both in the East and West and the work which introduced him to modern world of thoughts was mentioned in this way: "*Ibni Khaldun designed and proved such an amazing philosophy of history in Mukaddime that no one, at any time, at any country has created such a gorgeous masterpiece.*" (Toynbee, 1962)

Ibni Khaldun thoroughly examined the issue of economic progress that is one of the mostly discussed fields in today's literature of economy. He examined and clarified the economic progress on the basis of political power, environment of confidence supposed to be provided by the state, economical specialization as a consequence of cooperation, production based on manpower which is the basic element of labour production and most importantly the commitment to moral values.

Within this study, scientific mastership of Ibni Khaldun has been roughly examined. The most significant result that occurred is the astonishment for the fact that the ideas of a master, who lived seven centuries ago and who expressed the saying, "*past resembles future more than water resembles water*" still preserve their value in our day.

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4

INTERRELATION AMONG INCOME INEQUALITY AND ECONOMIC GROWTH: EVIDENCE FROM BRIC COUNTRIES

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Abstract

The relationship between income inequality and development has been initially investigated by Kuznets in 1955. According to Kuznets' hypothesis, income inequality would be low in the first stage of development, however when development improves, first income inequality will increase and then subsequently decrease after a certain point. In this paper, Kuznets' hypothesis is tested on BRIC countries which have high growth rate and economic performance for recent years. The study tested by panel data for the period of 1997-2012. According to empirical evidence, Kuznets' hypothesis is valid for the BRIC countries.

Introduction

The first systematic study on economic growth and income distribution is accruable to Simon Kuznets in 1955. According to his studies, in the early stages of development, the income in agricultural sector is low which leads to a little inequality gap between them. Kuznets' hypothesis implies that agro-industrial transition will cause income disparities to rise, due to the fact that the industrial sector achieves higher incomes than agriculture does. In the latter stages of industrialization, increasing share of the industry and its effect on income inequality will start to reduce. As an economy transforms from rural to urban, from agricultural sector to industrial, consequently income inequality would go down as the labor force in industrial sector expands and agricultural falls. This will increase society overall well-being and relatively decrease the inequality. Kuznets analyzed the nexus between income per capita and personal income inequality, which is based on Germany, UK and USA data and observed the inverted U-relationship among them. This evidence in economic development literature became known as the Kuznets Curve.

According to Kuznets Curve, as income per capita increases personal income in-

equality increases in the same proportion and as a result the growth rate will slow down, but after a certain point, as the income rises, the inequality tends to decrease. The numerous theoretical and empirical studies have been done on Kuznets' hypothesis and the results are very conflicting, because while some researchers were achieving similar conclusions, others have been finding different outputs. Even in some observations of different countries or group of countries, the relationship in the Kuznets' hypothesis was not inverted U-shaped, but was U-shaped or even horizontal S-shaped.

Literature Review

The subsequent literature evolved mainly in the direction of examining the relationship between income inequality and economic growth according to Kuznets' hypothesis. In these studies both variables were accepted as dependent and economists could not reach a common consensus about the validity of Kuznets Curve. However for certain periods and a certain group of countries Kuznets' hypothesis is valid; therefore it indicates that there is an inverted U relationship. The literature review section will focus on essential works of the Kuznets hypothesis, some of them agree with this theory while others stated that no correlation exists between these two variables.

According to Alesina and Rodrik (1994), it was obtained that a strong negative relation exists between inequality and income value of the previous years. The analysis was based on OECD countries, emerging economies and mixed group of countries data set for the period of 1960-1985 and 1970-1985. The OLS and TSOLS methods were used and the income per capita was considered as the dependent variable.

For the periods of 1988-1992, 1993-1997 and 1998-2002 in Central and Eastern European countries, so-called transition economies, Sukiassyan (2007) came to the conclusion that income inequality has a strong and negative effect on economic growth.

In contrast, Barro (2000) defined the validity of the Kuznets' hypothesis based on the study of the 100 countries between the periods of 1960-1995 and added some additional explanatory variables as inflation rate, democracy index and death rate.

Deininger and Square (1996) did not find out robust support for Kuznets' hypothesis, but due to the fact that they used large-scale dataset of 108 observations, their research was criticized in terms of accuracy. Later in 2008 by using the dataset of Deininger and Square (1996) Barro again tested the relationship between inequality and growth. The GINI coefficient was taken as the income inequality variable; additionally the population with the lowest income and the highest income were taken as two different variables of panel data. In this case, Barro stated that the impact of

inequality on growth is mostly negative for poor countries and at a higher per capita income of inequality its impact on growth may become positive. So as a result, Barro's contribution re-established the inverted U as a theory which links inequality to growth.

Acemoglu and Robinson (2002) formulated the importance of political decision-making and examined the relationship between income distribution and growth. They found out two main results; first, that if inequality is initially low then the country would experience economic growth without increased income inequality and political reforms, for instance Eastern Asia after World War II and the so-called "Asian miracle". Second, when a society is immobilized even widening income inequality might not be sufficient to force political reforms, as a result increasing inequality and poor economic growth will be observed like in the case of Philippines and some African countries.

In another study, Higgins and Williamson (2002) presented OECD, African, Latin American, and the Gini coefficient of 19 countries for the period of 1960-1990 and also compared the ratio of income earned by the top quantile to that earned by the bottom quantiles. In addition he examined research data concerning age-specifics of the labor force which means that different age groups might be characterized by different income levels. Briefly this paper reported that income inequality tends to increase as a country passes through the early stages of development and tends to decline in the later stages.

Bulir (2001) in his studies estimated inflation rate as an additional explanatory variable using the traditional Kuznets model. The effects of price stabilization on income distribution have an upward trend so countries with inflation rate between 5% and 40% seem to benefit more than countries with a rate below 5%. This paper analyzes a large scale of data based on such countries like Africa, Asia and Latin America.

According to Galbraith (2007) research of the world economy for the period of 1963-1999, the income inequality during 1970-1980 decreased sharply, but between 1981-1990 significant growth was indicated. Also in accordance with UTIP-UNIDO inequality measurement, countries were classified into low, medium and high quality groups.

Persson and Tabellini (1994) measured inequality and stated that an increase in income inequality causes the disparities in accumulation through increased taxes on investment and thus will lead to a decrease in the growth rate.

Forbes (2000) developed a panel data analysis for the period of 1965-1995 and the main variables were the male and female education level, income, inequality and purchasing power parity. The estimation of fixed and random effects model showed that there exists a positive relation between income and inequality for 45 countries, how-

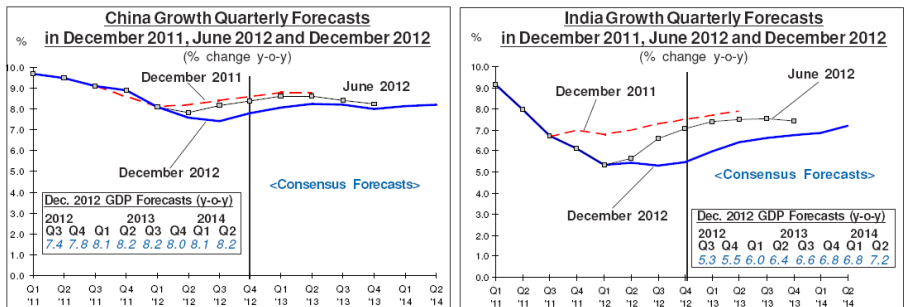
ever all variables have shown the negative effect except the female education level.

Economies of BRIC Countries

In economics, BRIC is an acronym that refers to the countries; Brazil, Russia, India and China. The specifics of these countries are rapid growth rate and increasing power in the world trade. The economic recession that started in USA and it has spread in Europe but was almost avoided by BRIC countries thereby attracting the attention of researchers and other countries.

In this section the basic macroeconomic and social indicators will be analyzed as well as BRIC countries’ tactics and perspectives. First of all, let’s look at the issues forming the basic of improvement in terms of per capita income. According to the graph in Appendix 1, Russia after 2007 and Brazil after mid-2009 registered an increase in an income per capita above the world average. Since 2003 the income per capita in Russia increased from \$6000 to \$12500, in the period of ten years; Brazil had a similar development; in China income jumped from \$1000 to \$6000, and in contrast India remained steady and experienced just a little change.

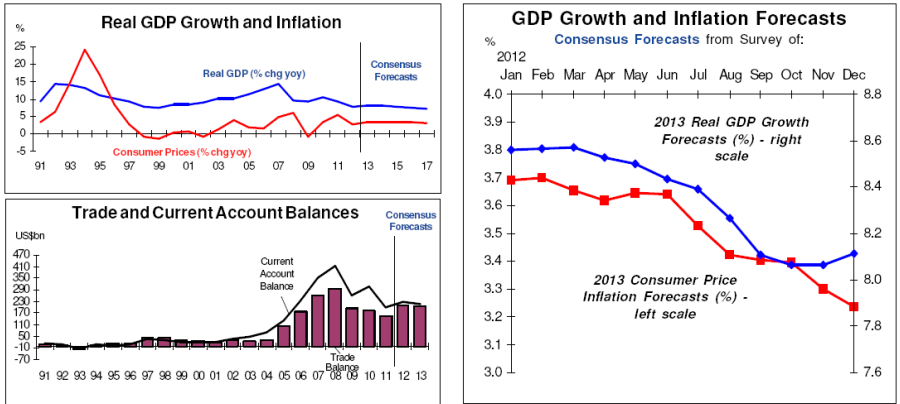
The Global Financial Crisis in 2009 started in USA and spread around the world which led to a contraction of the global economy. In the same year, due to the Great Recession, Brazil and Russia have been seen to be negatively affected and this caused a slowdown in the economy by 8%. On the other hand, China and India witnessed a less effect of the crisis; in fact in 2012 India recorded a two-fold increase in economic growth comparing to the previous year. In the period discussed above, we can indicate that BRIC economies were above the world average, except Brazil in 2012. Therefore, according to forecasts China and India will continue with an upward trend in 2013-2014.



Graph 1: China and India’s growth forecast. Source: www.worldbank/indicator

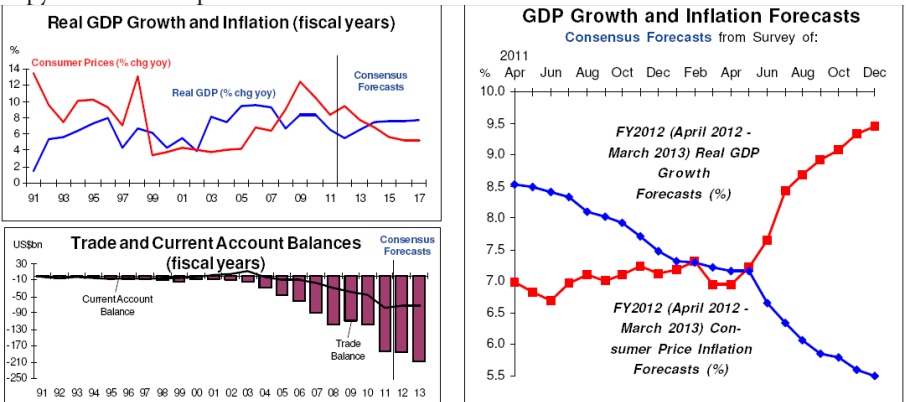
According to forecasts, economic growth rate of China and India is expected to be

8% and 6-7 % respectively for the first two quarters of 2013-2014.



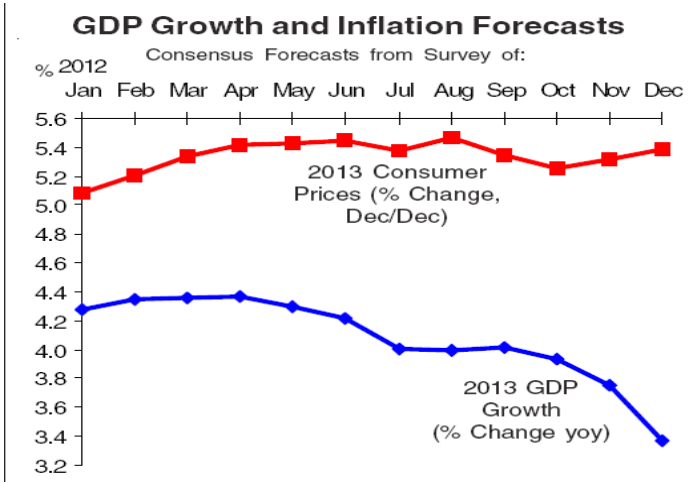
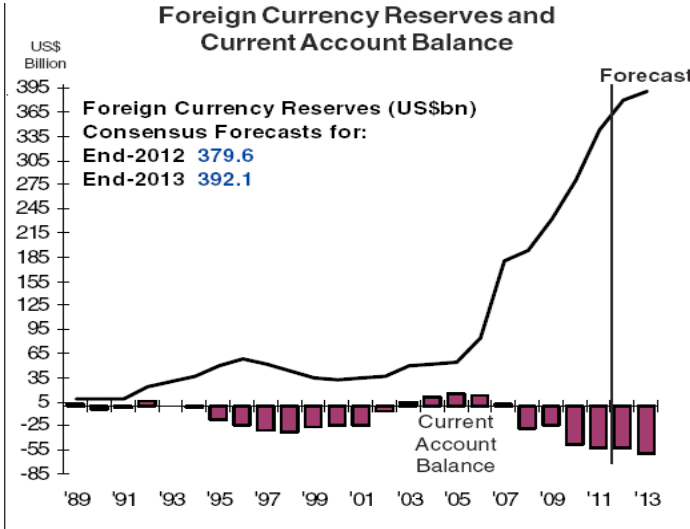
Graph 2: Economy of India, forecasted values

As we can see from Graph 2, Chinese economy shows the inflation rate at 3.5%, and the real growth rate at 8% as forecasted for 2013. On the other hand, current account surplus will continue to increase and China's weight in the world economy will occupy an essential space.



Graph 3: Economy of India, forecasted values.

The growth rate for Indian economy was forecasted to be at 6%. Besides, the current account deficit is projected to increase inflation rate by 8-9 %.



Graph 4: Current account balance, Inflation and Growth Rates, forecasted values for Brazil. Source: www.worldbank/indicator

Between 2013 and 2014, the macroeconomic indicator of Brazil’s economy is expected to be as follows: Growth rate at 3.5%, Inflation rate- 5-5.5%, while the current ac-

count deficit will remain the same. With much emphasis on the last decade, in Russia an unemployment rate of 6-8%, in Brazil 7-9%, and in overpopulated China 4% was recorded respectively.

Appendix 4 shows how national income share held by the lowest 20% varies by BRIC countries, however only Brazil and Russia's data are available with the values 2% and 7% respectively. For Russia, the share of relevant groups in 2006-2007 decreased and only in 2009 could reach the same level it was in 2003. BRIC countries' industrial value added output growth (Appendix 5) exceeds the world average, due to the fact that China holds the leading position with a share of 47% and on the second position is Russia with a share of 37%.

Nearly half of the world's population lives in rural areas, so since the last decade its weight has not changed. The rural population in China occupies 60% of its total population; approximately two-thirds of India's inhabitants live in suburban and urban areas; in Brazil, it is about 18% and in Russia -28%. Generally these indicators remain stable, even in China and India, where the share of trade and industrialization increased.

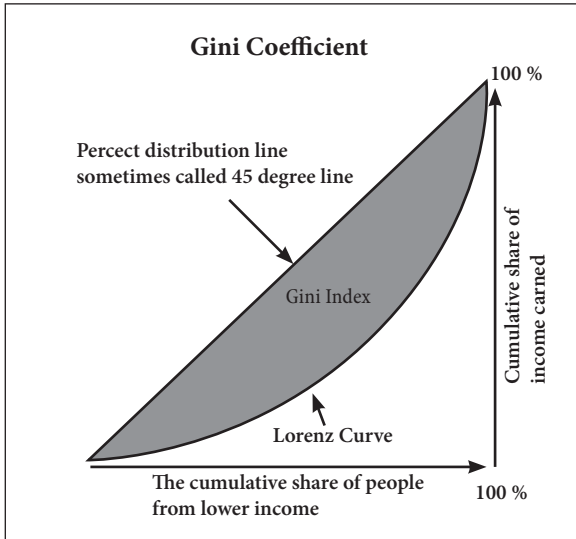
Since the last decade, BRIC countries are increasingly becoming a significant economy and a source of power among world countries. It was pointed out that the macroeconomic and social indicators of BRIC countries are above the world average and according to projections, it will continue to develop in this trend. Considering the facts discussed, BRIC countries are going to be an important subject that worth for analysis.

Data and Model

This paper considers the empirical analysis of the relationships between income inequality and economic growth of BRIC countries; it covers the period from 1997 to 2012. Economic variables were selected from the World Bank Database (www.world-bank.com/indicator). Since the basis of our analysis is the impact of income inequality on economic growth, Gini coefficient is used as a measure of inequality and the GDP per capita as a growth variable.

The Model

In empirical estimation the model selection was based on Kuznets inverted U hypothesis as tested by Barro (2000, 2008). We have considered the vertical axis as our Gini coefficient, also in the same view the dependent variable, while the vertical axis is represented by GDP per capita.



Graph 5: *Gini Coefficient*

The Lorenz Curve in Graph 12 shows us a country’s fair or unfair distribution of income; the more bowed the curve is from the diagonal, the less income is being distributed equally. In other words it shows that 20% of the population gets *i* % of income. In general, the closer the Lorenz curve is to the line of perfect equality, the smaller the Gini index and the less the income inequality becomes.

This study uses the Gini coefficient as a measure of inequality in income distribution. In the equation below, β_2 coefficient is considered as the actual Kuznets curve indicator which shows its validity. According to this hypothesis, inequality at the beginning will rise as income increases, but in the latter stages will continue to fall, as a result this, the second equation β_1 will be positive, and β_2 - negative which finally supports the inverted U shaped relationship.

$$GINI = \alpha_0 + \beta_1 (GDP) + e$$

$$GINI = \alpha_0 + \beta_1 (GDP) + \beta_2 (GDP^2) + e$$

The panel data analysis was used in order to ascertain the validity of Kuznets’ hypothesis for BRIC countries.

Due to the use of cross-sectional and time-series data in one panel, the survey in-

creased the degree of freedom as shown below:

$$y_{i,t} = \alpha_i + x_{i,t} \beta_{i,t} + \lambda_t + e_{i,t}$$

$$\begin{bmatrix} y_{i,1} \\ y_{i,2} \\ \bullet \\ \bullet \\ y_{i,T} \end{bmatrix} = \begin{bmatrix} x_{i,1}\beta \\ x_{i,2}\beta \\ \bullet \\ \bullet \\ x_{i,T}\beta \end{bmatrix} + \begin{bmatrix} \alpha_i \\ \alpha_i \\ \bullet \\ \bullet \\ \alpha_i \end{bmatrix} + \begin{bmatrix} \lambda_1 \\ \lambda_2 \\ \bullet \\ \bullet \\ \lambda_T \end{bmatrix} + \begin{bmatrix} e_{1i} \\ e_{2i} \\ \bullet \\ \bullet \\ e_{mi} \end{bmatrix}$$

{Where, i represent cross-section and t -time-series.}

According to Swamy (1972), panel data can be estimated by Random and Fixed Effects Model. If the differences between units are constant then Fixed Effects model is used, if random then Random Effect model is suggested. In the case when none of these models observed for further research OLS method can be used and this consists of three models.

Pooled OLS (Joint Effects Model)

The pooled OLS regression estimates that the constant and the slope coefficient should be the same for both cross-sectional and time-series.

$$GINI = \alpha + \beta_1 Y_{it} + e_i$$

In the model, i -represents cross-sectional, and t - time -series

The differences between cross-sectional and time-series can be monitored by using an error term. As a result parameters related to them will be considered as homogeneous.

Fixed Effects Model

The Fixed Effects Model rejects the homogeneity of parameters and controls for all time -invariant differences between the individuals.

$$GINI = \alpha_1 + \alpha_2 D_{2i} + \alpha_3 D_{3i} + \alpha_4 D_{4i} + \beta_1 Y_{it} + e_{it}$$

The units in cross-section are estimated by using dummy variables. In the above equation, concerning individual country differences, we can see three dummy variables and one constant, where α_1 -Brazil, D_2 -Russia, D_3 -India and D_4 - China. In this section the individual country's difference will be estimated by changing the constant value, moreover to avoid the trap between variables, the values of the cross-sectional dummy variables should be taken till the first negative variable appears. Accordingly, all countries parameters' of dummy variables will concern the difference from Brazil's constant term.

Random Effects Model

The Random Effects Model assumes that constant term (α_{1i}), α_1 can vary randomly.

$$GINI = \alpha_{1i} + \beta_1 Y_{it} + e_{it}$$

$$\alpha_{1i} = \alpha_1 + e_i, i = 1, 2, \dots, n$$

The following equation is obtained when the error term is added to the randomness of the constant term in the model.

$$GINI = \alpha_{1i} + \beta_1 Y_{it} + e_{it} + \mu_{it}$$

$$\varepsilon_{1i} = e_{it} + \mu_{it}$$

$$GINI = \alpha_{1i} + \beta_1 Y_{it} + \varepsilon_{it}$$

In the equation above, along with the error term, the constant term includes specific randomness. Moreover units related to individual differences in fixed effects model will be estimated with the error term, where α_1 is a unit related to the overall average.

Specification Test

This test is known as F-test for model specification and used to test “*Joint Effects or Pooled OLS estimation models*” against “*Fixed Effects Model*” alternatively. If the test statistics will be significant, Fixed Effects Model should be estimated.

$$F_{\text{groupeffects}} = \frac{(R^2_{\text{fixedeffects}} - R^2_{\text{commoneffects}} / nT - 1)}{(1R^2_{\text{fixedeffects}}) / (nT - n - k)}$$

In the model we compare the fixed effects model $R^2_{\text{fixedeffects}}$ with the value obtained from pooled OLS $R^2_{\text{commoneffects}}$, where n - is the number of countries; T -number of observations and k - number of parameters.

While the F-test is preferable for Fixed Effects Model, in Random Effects and Fixed Effects models the Hausman model specification test is used.

$$[\hat{\beta}_{FE} \hat{\beta}_{RE}]' [\text{Var}(\hat{\beta}_{FE}) - \text{Var}(\hat{\beta}_{RE})]^{-1} [\hat{\beta}_{FE} - \hat{\beta}_{RE}] \sim \chi^2$$

The hypothesis that “Random (stochastic) effects are valid” is tested against Fixed Effects model. The Hausman test is one type of the Wald test, which predicts significant ρ -probability estimation under the Fixed Effects model and evaluated by Chi-square test.

The Empirical Results

Let's first look at the results of Unit Root Test, which is widely used in economic analysis. The basic hypothesis below according to Levin, Lin, and Chu (2002); Breitung (2002); Im, Pesaran, and Shin (2003); Maddala and Wu (1999) should be based on Augmented Dickey-Fuller test and Fisher Chi-square (Dickey & Fuller, 1979) and Phillips and Perron (1988) suggests the Chi-square test.

- (1) : $\Delta y_{it} = \delta y_{it-1} + e_t$, $H_0: \delta = 0$, $H_1: \delta < 0$,
- (2) : $\Delta y_{it} = \alpha y_{0i} + \delta y_{it-1} + e_t$, $H_0: \delta = 0$, $\alpha_{0i} = 0$, $H_1: \delta < 0$, $\alpha_{0i} \in R$
- (3) : $\Delta y_{it} = \alpha y_{0i} + \alpha_{1i} t + \delta y_{it-1} + e_t$, $H_0: \delta = 0$, $\alpha_{1i} = 0$, $H_1: \delta < 0$, $\alpha_{1i} \in R$

The first equation is Dickey-Fuller test (1979, 1981) that assumes the model does not include a constant and deterministic trend. The second equation estimates that the constant exists in the model and the third equation tests the model for stochastic trend with the presence of all deterministic components. The statistical significance of δ coefficient shows the stationarity of the series at I (0).

The below includes OLS results.

Table 1: *The common effects of OLS results*

$GINI = \alpha_0 + \beta_1 (GDP) + e$			
Variable	Value	Standard Error	Probability
α_0	2.0413	6.9394	0.7697
β_1	5.3755	0.8900	0.0000
R^2	0.3861		
R^2	0.3755		
F	36.478		0.0000

$GINI = \alpha_0 + \beta_1 (GDP) + \beta_2 (GDP^2) + e$			
Variable	Value	Standard Error	Probability
α_0	-84.3313	54.1707	0.1251
β_1	28.1197	14.1773	0.0521
β_2	-1.4723	0.9160	0.1135
R^2	4127		
R^2	0.3921		0.0000
F	20.029		

In the first equation we can see an increase in both income and inequality. In the second, Kuznets’ hypothesis validity was tested and as a result, at the first stages income has a positive value but then turns negative, which supports the hypothesis.

Table 2: *Random/ Fixed Effects estimation results*

$GINI = \alpha_0 + \beta_1 (GDP) + e$			
Variable	Value	Standard Error	Probability
α_0	32.5693	5.8009	0.0000
β_1	1.4278	0.5855	0.0178
<i>Random Effect (cross)</i>			
BRA	12.5528		
CHI	-2.6313		

IND	-5.9605		
RUS	-3.9609		
R ²	0.0918		
R ²	0.0767		
F	5.8633		0.0186
Hausman			0.1223
Rho			
Cross-section random			0.8956
Idiosyncratic Random			0.1044

$GINI = \alpha_0 + \beta_1 (GDP) + \beta_2 (GDP^2) + e$			
Variable	Value	Standard Error	Probability
α_0	-21.0098	25.4813	0.4196
β_1	15.1984	6.3098	0.0193
β_2	-0.3855	0.3855	0.0318
<i>Random Effect (cross)</i>			
BRA	12.2609		
CHI	-2.9908		
IND	-5.0662		
RUS	-4.2038		
R ²	0.1599		
R ²	0.1305		
F	5.4281		0.0069
Hausman			0.7046
Rho			
Cross-section random			0.9477
Idiosyncratic Random			0.0523

Before the results evaluation, let's look at the model specification F-test outputs.

Table 3: Common Effects / Fixed Effects Specification Test

Models	F-statistics	ρ -probability
$GINI = \alpha_0 + \beta_1 (GDP) + e$	109.254	0.0000
$GINI = \alpha_0 + \beta_1 (GDP) + \beta_2 (GDP^2) + e$	117.417	0.0000

According to the obtained results, estimating equations with fixed effects would be more appropriate. The Random Effects estimation is better monitored in Table 2. Panels were consistent with the results obtained from OLS, especially in the second equation when at the first stage income value was positive but later changed to negative and statistically significant. According to our estimations, the Kuznets hypothesis in BRIC countries for the period 1997-2012 explains the inverted U shape of the curve and renders its validity. Rho coefficient shows that the unit effects are relatively high (in the first model 0.9477 and in the second model 0.8956).

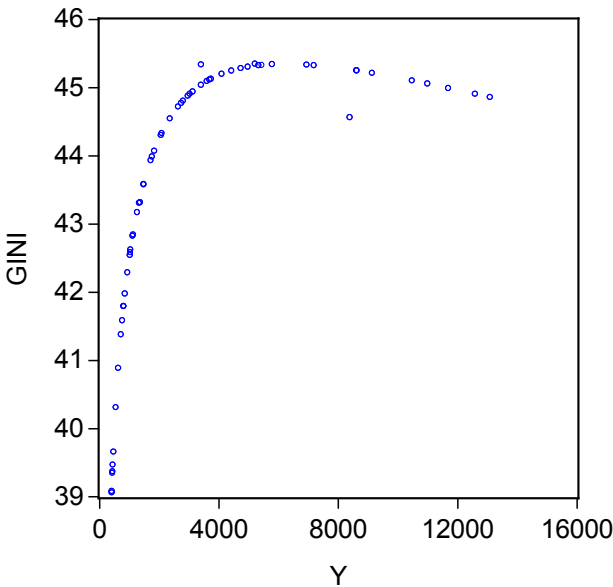


Figure 1: BRIC Countries Kuznets Curve

In figure 1 the point of 880\$ identifies the turning point of Kuznets curve related to the BRIC countries, after this level of income, any increase in per capita income will lead to decrease in inequality.

Conclusion

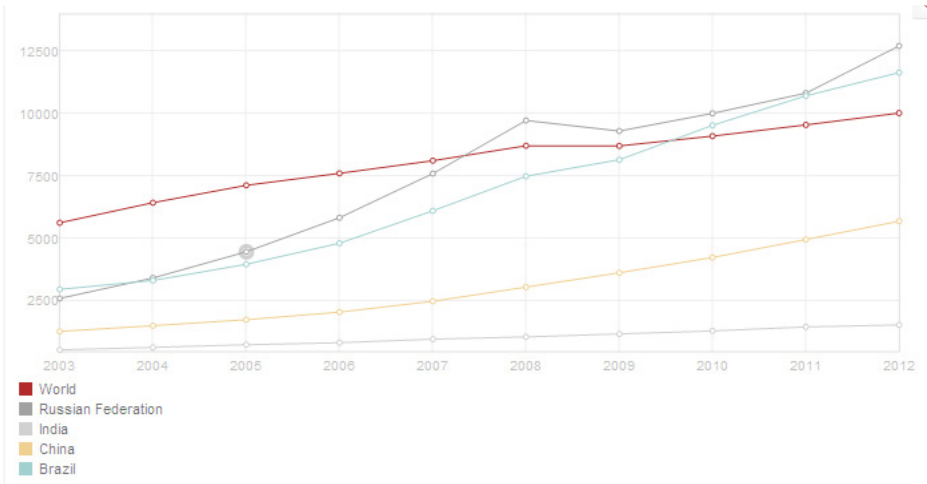
The Kuznets Curve is the first systematic study of the relationship between inequality and growth. According to this study, in the latter stages of development, transition from agriculture towards industrialization will lead to a change in the direction of income – inequality relation. In the first stage, with an increase in income, inequality will increase, but in the latter stages of industrialization; with increasing income, the inequality level will decrease.

The hypothesis was tested in order to ascertain its validity on BRIC economies and according to projections in the future, it will play an important role in the global economy and increase their share in world trade, especially China, which is a leader with a high growth rate, low inflation rate and the current account surplus.

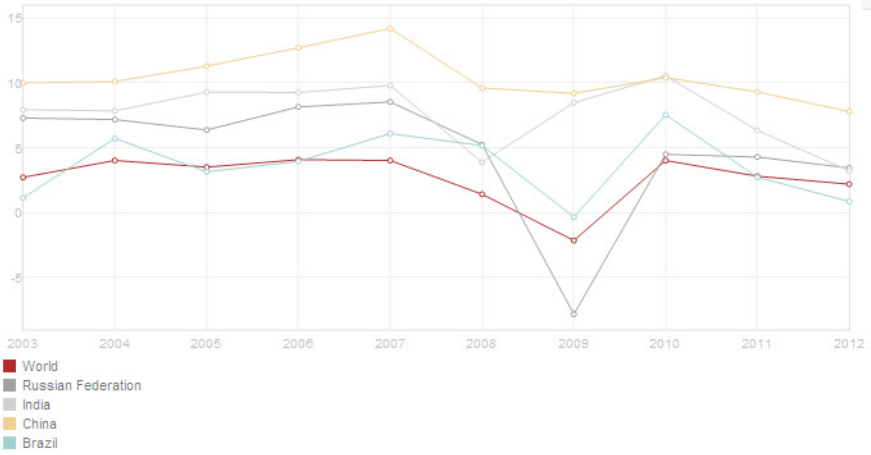
The Panel data analysis of BRIC economies for the period 1997-2011 shows that according to Random Effects Model, in the first stage has positive growth rate was observed, then in the second it turned to the negative. As a result we can confirm that income inequality and economic growth rate have an inverted U-shaped relationship in the second stage of its development.

Appendicies

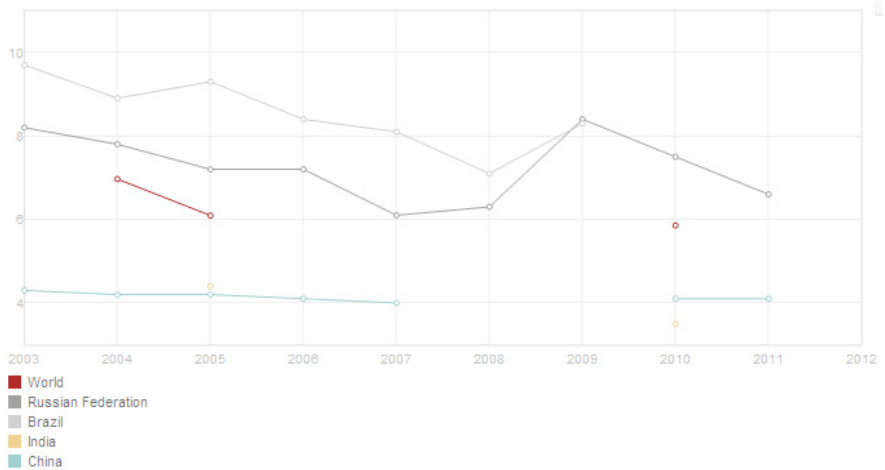
Appendix 1: Income per capita, BRIC countries (current USD)



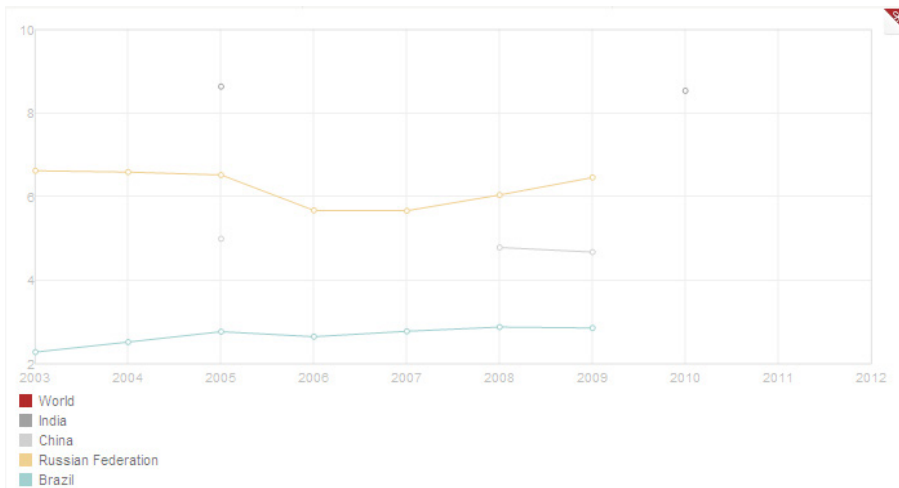
Appendix 2: GDP growth rate, BRIC countries (%). Source: www.worldbank/indicator



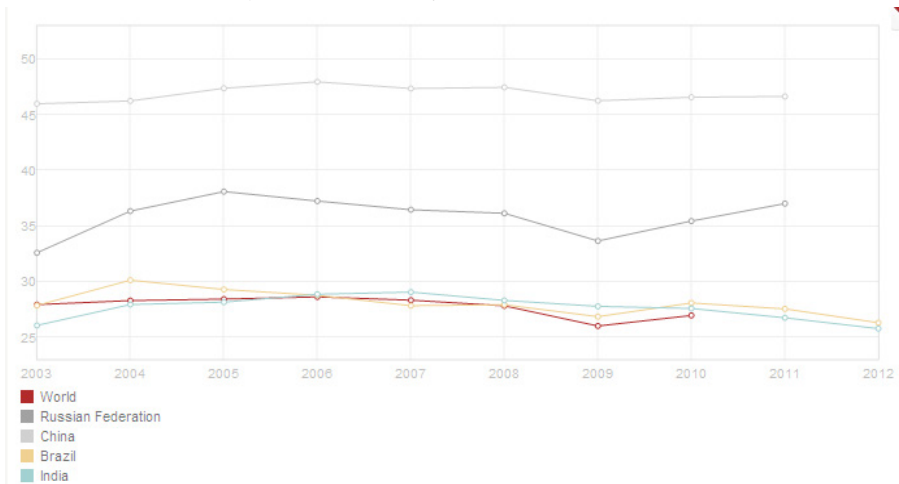
Appendix 4: Unemployment Rate, BRIC countries (%)



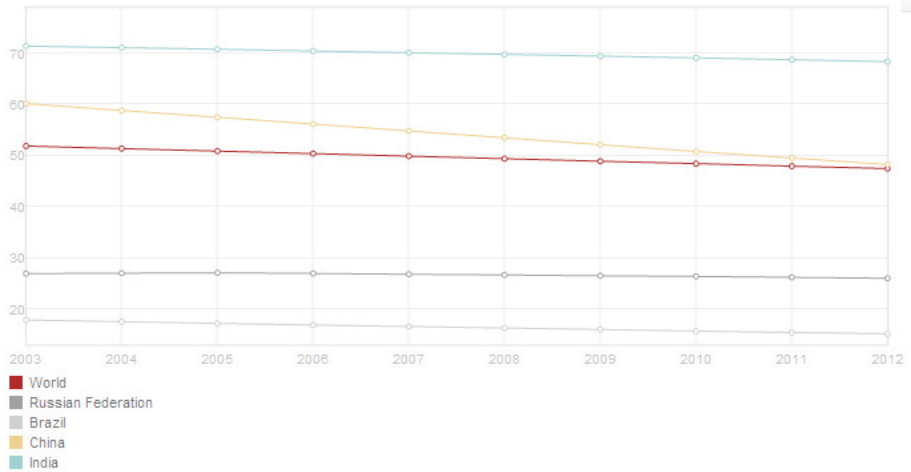
Appendix 5: The share of the lowest 20% income to total national income in BRIC countries.



Appendix 6: Industry Value Added (% of GDP), BRIC countries



Appendix 7: Rural Population of BRIC countries (% of total population)



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Internet Sources

www.worldbank/indicator

www.consensusforecasts

5

AN EVALUATION ON THE CREDIBILITY OF THE CBRT¹

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Abstract

Credibility is a very important feature for the effectiveness of monetary policy. In the event that macroeconomic dynamics are out of balance in an economy, monetary policies cannot provide sufficient confidence or control inflation. For that reason, gaining credibility for policy makers in the solution of problems is extremely important. In this work, firstly credibility, transparency and accountability concepts will be clarified and then the issue of credibility of monetary policies will be evaluated. The issues of central bank independence and ensuring fiscal discipline, which are characteristics of a credible monetary policy strategy, will also discussed and the study will be completed with an assessment of to what extent attention is attached to transparency and accountability in monetary policy strategies performed in our country in recent times.

Introduction

Due to the integration of international financial markets, countries are frequently exposed to financial crises through contagion and spill-over effects. The capital flows plays very important role in the emergence of crisis. In order to prevent crisis, the creation of an optimal institutional financial infrastructure that reducing market risk of the country, enhancing transparency and accountability and strengthening the national financial system are required. (Burçak and Erdönmez, 1999). In other words, credibility of macroeconomic policies have been an indispensable element of stability.

It is impossible to obtain the desired result for the economies if the macroeconomic policies haven't got credibility. Because policymakers have a tendency to change their minds regarding the decisions they take and are unwilling to take responsibility for the problems encountered. As a result, the credibility has become an indispensable element of effective monetary policy. For credibility as well as an effective monetary policy, transparency and accountability, good governance and the possible connection between factors such as a credible Central Bank of the country are also required for economic stability. Unless this is achieved, the process of faster and less costly

1 Econ Anatolia 2009: A developed and updated version of a paper presented in Anatolia International Congress of Economics. 17-19 June 2009. Eskişehir, Turkey.

disinflation as well as the maintenance of price stability will be impossible. (Blinder, 1999)

The study was composed under three main headings. Firstly, the concept of credibility, transparency and accountability has been clarified and the credibility of monetary policy issues has been addressed. Within this context, the issues of Central Bank's independence and fiscal discipline which are indispensable elements of the credible monetary policy strategy were also addressed. The study completed by an assessment on the monetary policy strategies recently implemented in the Turkish economy with respect to the elements of credibility.

Definition and Scope

Literally, credibility defined as "the quality of being believed or accepted as true, real, or honest." In terms of monetary policy, credibility can be defined as "the absolute value of the difference between the plans prepared by policymakers and the private expectations" (Cukierman and Meltzer, 1986). In this respect, credibility can also be defined as "the consistency of current and future private expectations about to targets initially declared by authorities" (Oktar, 1998).

Measuring credibility is also very critical issue. Credibility can be measured by two methods, direct and indirect (Johnson, 1997). Direct measurement, as policy makers describe it, is a formal inflation target or targets compared with to private sector agents' inflation forecasts. If policy makers do not have a formal inflation target announced, indirect measurement can be made by comparing private sector agents' inflation forecasts with actual inflation figures.

In the most nominative form transparency is defined as the absence of asymmetric information between the parties (Kanalıcı, 2007). If a more clarified descriptive definition needs to be made of transparency, "it can be called making the information concerning the decisions and activities visible and understandable in the current circumstances" (IMF, 1998). On the other hand, "proving the correctness of the decisions and accepting responsibility for the necessity of the practices by the authorities against the public and government" describes the concept of accountability (IMF, 1998).

Transparency is a necessary condition for accountability but is not sufficient. This is because transparency only expresses disclosure of information. When practices are criticized and the responsibility for the application of accountability is taken, if it is found to be incomplete and inadequate, different kinds of reaction could be encountered (Kanalıcı, 2007). Thus, the concepts of transparency and accountability can be described as tangled concepts associated with each other.

Credibility is the most important condition to ensure the success of monetary policy along with transparency and accountability. Furthermore, these features are considered indispensable elements of achieving and maintaining credibility (Kansu, 2007). Transparency and accountability also provides to eliminate the adverse selection and moral hazard problem arising due to asymmetric information between parties (Florini, 1999). By courtesy of transparency, private sector agents can observe whether the Central Bank's monetary policy implementation is working or not (Kanalıcı, 2007). Accordingly, transparency and accountability increases the credibility of central bank and the effectiveness of monetary policy. Thus, the time and cost of disinflation process will be lesser (Huh and Lansing, 1998)

There is a strong relationship between the credibility of monetary policy and the concepts of transparency and accountability. The research conducted on this subject mainly relates to the problem of time inconsistency (Kydlund and Prescott, 1977) and the literature focusing on monetary policy games (Mishkin, 1998). According to the results, the more the briefing process is made frank and clear by the Central Bank, the easier it gets for the market players to perceive the information precisely and hence no emergence of problems will occur in the orientation of the Central Bank's inflationary expectations (Kansu, 2007).

The Central Bank's credibility on monetary policy is based much more on the implementations it takes than the promises it gives (Thorton, 2002). Credibility can be acquired by two different ways (Eijffinger, 1996): Firstly, it can be acquired by statutory regulations. That requires to grant central bank with independence guaranteed by law and the authority to determine monetary targets (E.g. Bundesbank). Secondly, the Central Bank managers who determine an explicit inflation target for monetary policy are said to be held accountable for implementing this target (E.g. Sweden, New Zealand).

In studies concerning the credibility, the past inflation performance of the Central Bank is more significant than other determinants. Accordingly, the history of the Central Bank as an institution as well as a fighter against inflation, the independence of the central bank in complying with the criteria of transparency and accountability, its discipline in applying fiscal policy, pre-commitment to apply monetary policy, and rule-based policies to monitor and carry out institutional arrangements effectively are among the conditions related to acquiring credibility. (Persson and Tabellini, 1995; Blinder, 1999; Berg, 1996).

Although the mentioned conditions are necessary for the acquisition of credibility and significant for sustainability, they are not sufficient alone. Therefore, preparing framework conditions related to credibility is not a clear indicator for the monetary policy to be credible. These only facilitate the promises being given in an economic environment and provide an assessment on the sidelines during the formation. These

conditions need to be addressed as a whole, not individually (Büyükakın, 2001).

Gaining public credibility in preventing inflation for central banks depends on their past and present period consistency of public policy announcements and maintaining an honest record of the past. Credibility is very hard to come by, but in contrast it is a criterion that can be lost very easily. Any inconsistency generated between monetary and fiscal policies in the implementation phase is considered as the most reliable source for the lack of monetary policy credibility (Välilä, 1999). On the other hand, credibility might not be provided by having consistent monetary and fiscal policies; the reason for this is not because of the Central Bank's independence, but because of unreliable monetary targets (Välilä, 1999). Independence of central banks, gaining credibility and ensuring the continuity of the earned credibility are the complementary regulations for banks to keep their promises (Chang, 1998).

Regarding the independence of the central bank, "The Central Bank's monetary policy, without being exposed to political authority, means that applying the targets given and having the flexibility and discretion to make changes when necessary" (Oktar, 1996). It means that "the main operational tools of the central bank, have the right to change without consulting or complying verification with the government" (Capie, et al. 1994). It can clearly be said that legal independence, the appointment of a central bank president, the determination of tenure and dismissal, and policy formulation related to the objectives of the central bank cover all legislation and public sector borrowing requirements (Cukierman, 1998).

There are two different types of Central Bank independence, the target independence (political) and instrument independence (economic). The ability to determine the ultimate target of monetary policy called as political independence and the ability to determine the instruments which will be used for achieving ultimate target of monetary policy is called as economic independence (Alesina and Summers, 1993; Fischer, 1994; Grilli, Masciandaro and Tabellini, 1991).

Although independence of the central bank has positive effects on the economy, there may be several differences between the primary objective of the central bank and the political authorities. Namely, while the concept of time between the two parties is interpreted in a different way (politicians evaluate the process in a shorter period of time compared to the central bank), on the other hand, priorities may also vary (high employment, and increasing the balance of payments of the seignorage income) depending on both sides price stability and other economic objectives. (Central banks prioritize price stability whereas politicians prioritize other objectives) (Cukierman, 1998).

Debt or a public deficit that is not sustainable in financing the budget deficit emerge also as inconsistency problems and thus cause the loss of monetary policy credibility. While rational private sector agents predict inflation rates, in the face of such a

situation they see the possibility that policy makers can press to the central bank for monetizing debt (Lucas and Stokey, 1995; Calvo, 1995). It also reveals that there is a necessity to discipline the fiscal policy for the credibility of monetary policy along with other conditions.

In an economic environment described by Sargent and Wallace (1986) as, “unpleasant monetarist arithmetic”, when the budget deficit supply is persistent and return of government income securities exceed, this situation extremely restricts monetary authority to combat inflation. As a result of governmental debt being borrowed again or unsustainable increasing tax payments, monetary authority would have to monetize the debt as a last solution (Sargent and Wallace, 1986). This means increasing inflation pressure in the economy.

Fiscal discipline is essential for providing the Central Bank's independence and in order to increase the credibility of monetary policy in the challenge against inflation: Implementing equivalent budget rules, requirements concerning the consistency of macroeconomic programs adopted in advance of the budget or bringing legal limits for borrowing, including hierarchical rules to the budgetary procedure and paying attention to various regulations such as transparency of this procedure can be brought into the financial discipline system (Sargent and Wallace, 1986; Alesina 1999; Büyükakın, 2001; Leibfritz, Roseveare and Van Den Noord, 1994). In 1998, with regard to the fiscal discipline, in order to create an international standard the IMF published the “Code of Good Practices on Transparency in Monetary and Financial Policies” (IMF, 1998). Thus, the credibility of monetary policy to a large extent or even mainly to principles of transparency and accountability has been adopted as a fiscal discipline.

The Role of Transparency and Accountability in Ensuring Credibility

As is known, on monetary policy implementation the monetary authorities have the advantage of more information than private sector agents (Remsperger and Worms, 1999)². In contrast, private sector agents need to be informed about politicians'inflationary trends. In this context, solving of the credibility problem by monetary authorities is dependent on sharing the information they have with private sector agents and having the necessary institutional arrangements about their performance that are questioned after they are explained to public (Büyükakın, 2001).

As mentioned earlier, transparency and accountability criteria are closely related to

2 There are three sources of asymmetric information problem between these two agents: Monetary policy transmission mechanism; Central Bank's estimations; Objective Function of Central Bank.

each other and when they are evaluated in an objective manner, resulting from the information advantage of the monetary authority, the possibility of the emergence of the principal-agent problem is completely eliminated (Florini, 1999). Because transparency of information relates to the application of monetary policy, eliminating the lack of informed private sector agents plays a role in inhibiting aspects of the making of the decision-process about the future (Remsperger and Worms, 1999).

Within this context, transparency of knowledge for monetary policy helps private sector agents in terms of inadequate knowledge and they have a big role in preventing errors of estimation for the future during the decision making period. (Bernanke and Mishkin, 1997). Therefore, the accountability criterion with transparency needs to be regulated with an efficient contract that forces them to abide by rules that are explained by monetary policy. This simplifies the process for both solving the principal agent problem and gaining credibility. For this reason, institutional arrangements that include the conditions of transparency and accountability must absolutely be given a place in monetary policy. This is because making monetary policies transparent and holding monetary authorities responsible allows principles (representatives) to monitor and control activities of agents (appointed). Consequently the authority-responsibility imbalance is eliminated (Büyükkakin, 2001; Cecchetti, 1997).

With the principle of transparency, the Central Bank monetary authority seeks to render predictable policy, especially for long-term strategy. While the transparency of short-term monetary policy strategy causes immediate responses and fluctuations, the Central Bank is also captivated against the market's expectations. In short, it makes it impossible to take measures against the experienced unwanted advances and experienced negativity (Remsperger and Worms, 1999).

In conclusion we can say that by the adoption of the principles of transparency and accountability, the central bank's monetary policies have the ability to perform inflationary impulses by taking unexpected decisions and private sector agents could lead to reducing the risks of doubtful cases since they have the opportunity to evaluate in a healthy way (Lane, 1996; IMF, 1998; Kansu, 2007). Thus, both increasing the credibility of monetary policy as well as the decisions taken in the real economy and the efficiency of resource allocation are provided.

Necessary Arrangements to Ensure Transparency and Accountability

If Central Banks adopt the principles of transparency, it is possible to transmit to the public information on monetary policy by regularly prepared reports, releasing speeches made by the president, press releases and research prepared by the bank

(Almeida and Goodhart, 1998). If such studies are prepared in the form of periodic reports and made available by the central bank, the consolidation of accountability to the public and reliability will also be affected in a positive direction (Almeida and Goodhart, 1998). However, such releases should contain the following key points of these studies (IMF, 1998):

- Firstly, policy objectives must be clearly declared.
- Information concerning the intermediate and operational objectives should be made clear.
- Monetary Authorities should determine what kind of strategy they will follow in the face of economic and financial developments and the monetary transmission mechanism to the disclosure of the opinion that the development is of great importance.
- The posting and disclosure of politics, interventions to change the exchange market in the past and decision-making processes (including any details) should be made transparent.

Transparency and Accountability in Turkey

Turkey's economy has survived serious economic crises since the 90's. In the past, the structure was a self-governing one with the Central Bank of the Republic of Turkey in the primary position regarding public expenditure. With law No. 4651 issued on 25th April 2001 the corporate structure was modified to allow access to the primary objective of price stability. This law gave the central bank the authority to run its monetary policy independently. This authority allowed the central bank to adopt a monetary policy of transparency thus informing the public about the causes of policies and increasing accountability (Kansu, 2007). Therefore, if the projected target is not reached, under the new law the central bank would have to explain in writing the reasons to the Government and the public (CBRT, 2001).

The central bank operates the process of transparency and accountability by publishing reports prepared in connection with the monetary policy objectives and practices at certain periods (CBRT, 2001). Thus, ensuring the transparency of communication through the central bank and the general public is increasing the effectiveness of monetary policy. However, the central bank publishes reports with the warning to the general public that future inflation rates need to be taken into account. (CBRT, 2009).

Table 1 and Figure 1 show that in the years 1990-2013 one of the most important indicators of the share of the public sector borrowing requirement in GDP figures is

full of ups and downs. However, at first we see a rise in this ratio as a result of subsequent developments that took place in the Central Bank’s institutional framework after 2000. But then we see a sudden downward trend. The reason for this is that after the 2000 and 2001 crises, the move to the application “of the transition to strong economy” started to show progress towards the goals of monetary policy. This created the financial discipline in the bank’s institutional framework with an independent trend to revise, be transparent, accountable, and be brought to a situation that made it possible to direct inflationary expectations (Kansu, 2007).

Table-1: The Ratio Public Sector Borrowing Requirement to GDP (%)

Years	PSBR/ GDP	Years	PSBR/ GDP	Years	PSBR/ GDP	Years	PSBR/ GDP
1990	5,52	1996	6,52	2002	9,98	2008	1,62
1991	7,45	1997	5,83	2003	7,32	2009	5,05
1992	7,9	1998	7,15	2004	3,63	2010	2,36
1993	7,65	1999	11,64	2005	0,07	2011	0,14
1994	4,61	2000	8,88	2006	1,83	2012	0,99
1995	3,74	2001	12,06	2007	0,08	2013	0,83*

Source: SPO, CBT have been compiled from data from the Treasury and the Ministry of Development website.

* Provisional figures

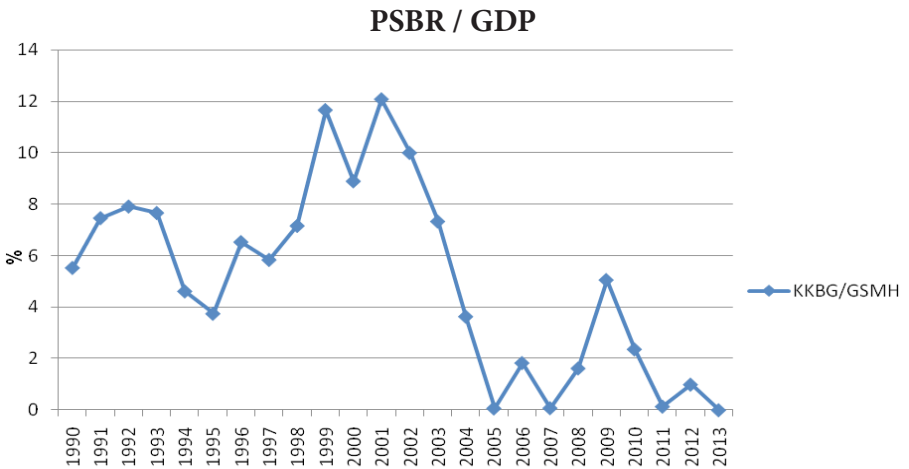


Figure1: Public Sector Borrowing Requirement Breakdown by Year Percentage of GDP

The share of the Gross National Product of the Public Sector Borrowing Requirement

is from almost no value to near zero in the 2005, 2007, 2011 and 2013. These figures clearly show that the developments are closely related. 2005 is the last year for the implicit inflation targeting strategy, while 2006 is the starting point for the explicit inflation targeting strategy (Kara and Orak 2008). With six zeros being taken off the Turkish lira and turned into ytl (new Turkish lira) and mortgages being introduced, aims were high. For both political as well as economic stability, the financial fragility has facilitated the realization of reducing fiscal discipline (Kara and Orak, 2008). Thanks to the Central Bank and the legal amendments to the banking law, supported by structural reforms, these developments increased confidence in the markets. The 2008 economic crisis reflection on the mortgaging side has led to a 5% rise in the 2009 figures. However, this situation was short-lived because the CBT, through explicit inflation targeting in 2006, has increased the operational freedom of movement (Yiğit, 2009).

Developments in the aftermath of the global crisis (short-term capital inflows, such as deteriorating current account balance and the risks caused by rapid credit expansion ...) pushed the Central Bank of the Republic of Turkey into the search for alternative policies. In this context, the central bank designed a new monetary policy strategy with different policy instruments that it began to practice in the middle of 2010 in order to limit financial risks (Başçı and Kara, 2011). The new monetary policy, besides the aim to maintain price stability, also included the aim of achieving financial stability. Low policy interest rates, high reserve requirements, a wide interest rate corridor composition, and macro short-term capital movements in countries with high current account deficit after 2011 lead to an effective strategy to mitigate the impact on the economic imbalances (Başçı and Kara 2011).

As we look at the assessment of inflation (Table:2) after a successful implementation of the first money program in 1990, a second monetary program in 1992 was put into motion, but this program failed. We cannot talk of a proper monetary program until 1998. This application also did not yield the desired results and started the implementation of the December 1999 exchange rate targeting strategy. This application ended the crisis in February 2001, after the adoption of inflation targeting strategy and implemented an implicit inflation target to determine the strategy until 2006.

With the improvements between 2002-2005, the central bank gained independence status, with the future decisions being taken by looking at inflation rates, the principles of transparency and sharing its policies with the public. All of this led to significant progress in fighting inflation ending the chronic inflation period (Kansu, 2007).

Table-2: 2000 Post Period Target and Actual Inflation Outlook

Years	Aimed CPI	Actual CPI	Difference	Years	PSBR/ GDP		
2000	25	39	-14	2008	4	10,1	-6,1
2001	12	68,5	-57	2009	7,5	6,75	0,75
2002	35	29,8	5,25	2010	6,5	6,39	0,11
2003	20	18,4	1,64	2011	5,5	10,5	-5
2004	12	9,32	2,68	2012	5	6,21	-1,2
2005	8	7,72	0,28	2013	5	7,42	-2,4
2006	5	9,65	-4,7	2014	6,5	9,55*	-3,1
2007	4	8,39	-4,4	2015	6,5		

Source: TSI, CBRT have been compiled from data from the Treasury and the Ministry of Development website.

* Provisional figures

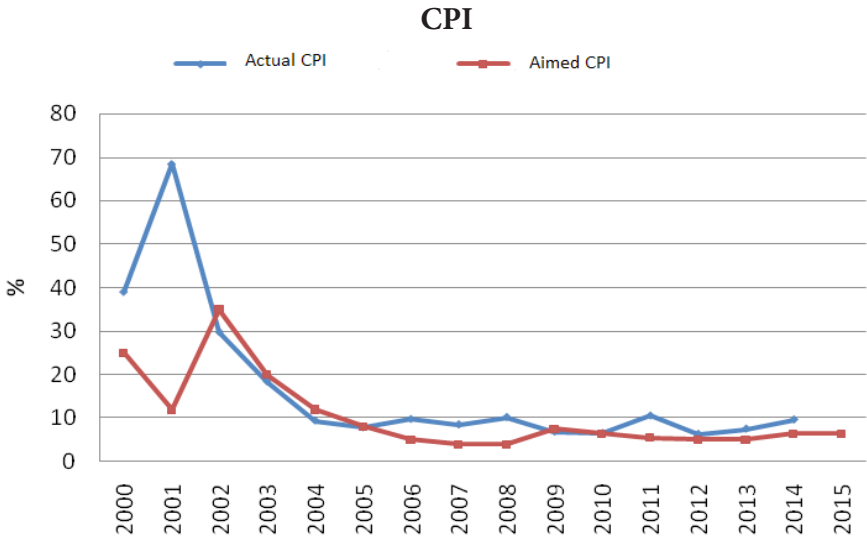


Figure 2: 2000 Post-Period Target and Actual Inflation Outlook

Table 2, we can see that between the periods 2000-2008 double-digit inflation rate has been reduced to a single figure. In the early 2000's the difference was negative, transforming into positive in 2002-2005 range, the transition from implicit to explicit inflation targeting difference since 2006 has become negative again. Among the most important reasons for this situation, which cannot be controlled by monetary policy, was the increase in oil prices, increases in agricultural products because of bad weather and international liquidity conditions. In addition, the increased probability

of financial uncertainty in the country, the exchange of goods and imported goods priced in terms of foreign currency increases have led to a rise in domestic demand and the unexpected occurred. At that time, the uncertainty in the appointment process of the Central Bank president also cast a doubt on the independence of the central bank.

The financial crisis beginning in the USA in 2007 and affecting the rest of the world in 2008, prevented the operation of the credit mechanism triggering the increase in uncertainty leading to an increase in borrowing costs required to obtain the result in question (Kansu, 2007, Yılmaz, 2007 and Yılmaz, 2009). When faced with this type of emergency, it is possible for the Prime Minister within the law to force the Bank to have its accounts audited by independent auditing firms and to request any information about its operations (CBRT, 2001). In this respect, information relating to fluctuations caused by the negative developments post-2006 meant the inflation reports were published four times a year and press conferences were held to inform the general public. The reasons for the deviation were given in writing in an open letter from the Central Bank to the Government. Thus, while the Central Bank's trust was damaged, it wasn't completely lost. Such developments can be observed more clearly in Table 2. The aimed rates and reality show a parallel trend. Even though the 2009-2010 years show a difference of below zero, 2011 and the following years always had an inflation rate above expectations, with a show of growth trend.

Table-3: Actual CPI, GDS Interest Rate and Growth Rate

Years	G. CPI	Years	G. CPI	Years	G. CPI	Years	G. CPI
1990	60,41	1997	99,09	2004	9,98	2011	10,5
1991	71,14	1998	69,73	2005	7,72	2012	6,2
1992	65,97	1999	68,79	2006	9,65	2013	7,4
1993	71,08	2000	39,03	2007	8,39	2014	9,5*
1994	125,5	2001	68,53	2008	10,06	2015	6,3**
1995	76,05	2002	29,75	2009	6,8		
1996	79,76	2003	18,36	2010	6,4		

Source: SPO, CBT, Treasury, IMF World Economic Outlook and Development Ministry have been compiled from data from web pages.

* Provisional figures

** Estimate

CPI-Government Debts Securities Interest Rate and Growth Rate

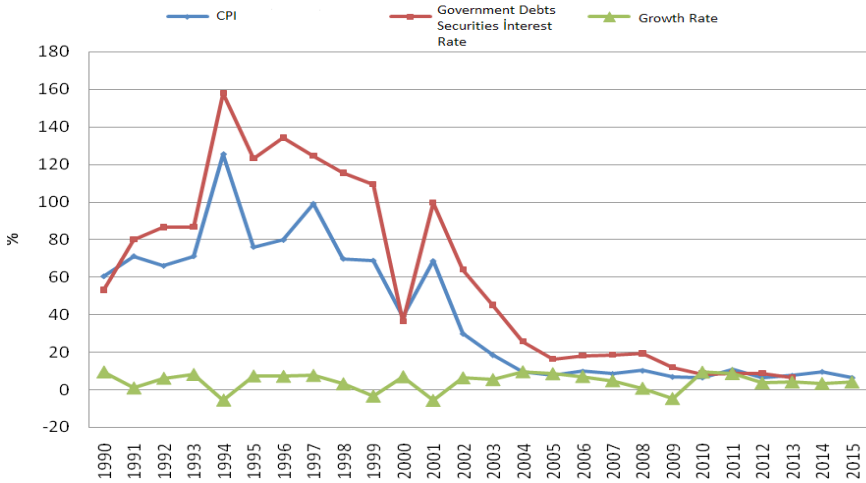


Figure 3: The view of CPI, Government Debts Securities Interest Rate and Growth Rate

When we look at the data in Table 3, the rate of inflation in government debt securities (GDS) acts in much the same way although there are some deviations from parallelism of interest rates. However, it is always above the GDS interest rate and inflation. These two variables in the process of the 2000-2001 crisis coincided with each other. There is stability in growth figures. Sudden ups and downs are observed. Up to the years of 2004-2005, GDS interest rate and CPI followed well above the growth rate, after these years it has decreased to almost no difference between them. Since 2006 it has shown a decreasing trend, as of 2009 it decreased to 4.7 and after this breaking point it began to take positive values.

In the last quarter of 2008, the results for taking precautions on anti-crisis measures have been made to cut interest rates, thus the negative developments affecting inflation began to reverse. In this context, “taking measures to provide financial stability in the system” is one of the Central Bank’s basic tasks considered by the law (Yılmaz, 2009). Hence, the CBT has established the composition of a “new monetary policy” in order to minimize expanding the framework of explicit inflation especially arising from the external balance and macro-financial risks from capital flows targeting implemented strategy since 2006 (Başçı and Kara, 2011; Kara, 2012). Under the new approach, the CBT’s main objective is to keep price stability as risks are taken into account while applying for this with monetary policy and financial stability. Ensuring

financial stability, in terms of the CBT's main objective of price stability, as well as a prerequisite for sustainable growth and prosperity with price stability has a special importance because it provides a more efficient and healthy operation of the monetary transmission mechanism (Özatay 2012; CBRT, 2013).

The Central Banks' leaning policy towards both price and financial stability has made them use the tools of complex monetary policy in a wide range of applications (Gertler and Karadi, 2011). Tool diversity, price stability and financial stability have made it necessary to prevent conflict with each other. Thus, countries have developed a new and unconventional monetary policy due to arising internal dynamics and have begun to use both structural and cyclical tools (CBRT, 2013; Vural, 2013; Serel and Özkurt, 2014).

Table-4: *The Monetary Policy Framework*

	Old Approach	New Approach
Objectives	Price Stability	Price Stability Financial Stability
Tools	Policy Interest Rates	Structural Tools Cyclical Tools (Policy Interest Rates, Liquidity Management, Interest Rate Corridor, Required Reserves and Reserve Option Mechanism (ROM))

Source: CBRT (2013).

As seen in Table 4 of monetary policy framework, since 2012 the CBT has used the framework of the implementation of the monetary policy interest rate corridor, reserve requirements, effective liquidity management and reserve options mechanism tools actively (CBRT, 2013). Reserve requirements have emerged as an important tool for the preservation of price stability and the sustainability of financial stability (Glocker and Towbin, 2011). Reserve requirement rates are also playing a role in reducing the short-term interest rates and also setting the amount of loans lent by the banks. On the other hand, asymmetric interest rate corridor is used for minimizing the impact of foreign capital inflows in the economy and it is also preferred for limiting excessive credit, whereas ROM is used for reducing the negative impact on the financial stability of the volatility of foreign capital flows (Demirhan, 2013).

Conclusion

For many years Turkey was a country trying to struggle with inflation problem. Until the introduction of inflation targeting strategy, Turkey was unsuccessful about the

struggle with inflation. In general, -with the exception of exogenous factors which are not caused by CBRT's monetary policy- we can conclude that the CBRT has been showed very important success about disinflation process with the arrangements for the necessary preconditions for the successful implementation of the inflation targeting strategy. In the other words, the regulations on central bank independence, transparency and accountability and enhanced fiscal discipline were key success factors. We can also conclude that the inflation targeting strategy provides a proper institutional framework for preventing financial crisis without causing significant lose in the credibility of central banks.

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6

MACROECONOMIC EFFECTS OF PRICE STABILIZATION AND INFLATION TARGETING: TURKEY EXAMPLE

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Abstract

Inflation had brought so many problems with economic and social roots to the world economy in 1980's. Especially in 1990's inflation targeting strategy is used with the aim of creating sustainability and permanence in price stabilization while fighting against the inflation. The aim of this study is to determine whether the inflation targeting strategy in Turkish Economy after 2002 is the start of a structural break period in basic macroeconomic variables such as consumer price index, exchange rate basket, budget deficit/GDP ratio, current deficit/GDP ratio and GDP growth ratio. In this study, inflation targeting strategy is discussed in a theoretical way and after price stabilization and economic stabilization are mentioned, Chow and Quant-Andrews structural breaks tests are applied in order to determine the change in the volatility values in the levels of variables with the indicators of the economic stabilization after the transition to the inflation targeting strategy in Turkey. Also for this analysis, an extended Dickey Fuller (ADF) test and performed stability test are used. When the effect of the inflation targeting strategy is analyzed in economic stability, it has been seen that the inflation targeting strategy applied in Turkey after 2002 has caused a structural break on the determined basic macroeconomic variables.

Introduction

As a result of the increased number of theoretical and empirical researches after 1980's, one of the most basic principles central banks and monetary policies need to have is the price stabilization. The fact that price stabilization is the priority target for monetary policies in the long term, price stabilization is used as a nominal anchor (intermediate objective) and central bank being fully independent and accountable, central bank to be transparent in its applications towards the public and the aim to create a financial stability as well as price stability has come into prominence.

Money authorities prefer three alternative monetary policy strategies as exchange rate targeting towards the application, monetary targeting, and inflation targeting strategy. These strategies have different qualities but price stabilization is an important common quality. Due to the disadvantages the alternative monetary policies have which are used for low and stabilized inflation rate which means price stability,

it was not possible to have them fully implemented in economy.

Gaining important success in creating price stability due to decreasing levels of inflation in the countries where inflation targeting strategy is implemented, increase in the resistance towards economic shocks; improvements seen as the positive influence on the growth have popularized the application of inflation targeting strategy. Also, findings which support the works on country experiences show that inflation targeting strategy has positive effects on macroeconomic variables.

Mishkin-Posen (1997) questioned the success of the inflation targeting strategy applied in New Zealand, Canada and Britain in their work. It has been observed that the inflation rate has decreased consistently under the expected levels in New Zealand, Canada and Britain that after implementing a inflation targeting strategy. It has been determined that the interest rates which are used as a monetary policy instrument are under the expected levels and no long term negative effect occurred in real economy; in short an atmosphere which is appropriate for economic growth could be created. Kahn-Parrish (1998) compared the economic performance of New Zealand, Canada, Sweden and Britain who applied inflation targeting strategy to the economic performance of USA. Inflation and short terms interest rates were taken as a basis in this comparison. In these four countries which apply the inflation targeting strategy, inflation rates are decreased and they obtained a stable structure.

Freedman (2001a), the experience gained from Canada showed that the inflation targeting could both be an effective nominal anchor for monetary policy and play an important role in decreasing the inflation and keeping the inflation levels in a lower level. Brash (2002), inflation targeting had become a trusted nominal anchor for monetary policies and inflation rate could be lowered to the level that of the other developed countries.

Neumann and Von Hagen (2002), wanted to determine the role of this strategy in the successful performance observed in lowering the inflation in the countries in which inflation targeting strategy is applied. For this purpose, they have inspected inflation volatility, income deficit and interest rate variables of central bank. Findings gained, showed that the inflation targeting strategy has increased the tendencies of recovery in such variables. On the other hand, the application of the inflation targeting strategy has enabled a certain development in the credibility degree in the monetary authority and contributed to the central banks in this country to become similar to the Bundesbank and Swiss National Bank.

With inspiration from such literature, it has been tried to determine whether the inflation targeting strategy is a similar structural break and start of a period of change by means of macroeconomic variables in Turkey, too and to measure the macroeconomic performance of the inflation targeting. The relationship between the price

stability and inflation targeting strategy has been explained with the help of the theoretical developments and results of economic policy applications. Within the light of the information gained by dealing with the monetary policy strategies and especially inflation targeting strategy with their theoretical and application aspects; it has been observed whether the inflation targeting strategy in Turkey caused any changes in macroeconomic variables such as customer price index, exchange rate basket, budget deficit/GDP ratio and current deficit/GDP.

Importance of Price Stability and Targeting

According to Friedman (1977) an increase appearing in the uncertainty of the future direction of the inflation affects economic activity in a negative way.¹ Price stability indicates a low and healthy inflation rate (Vinals, 1998). Mishkin emphasizes that the aim of the price stability is to keep the inflation at a low level and refrain from a price deflation. Because, prevention of deflation is as important as preventing inflation (Mishkin, 1997a: 91-92).² High inflation causes the habits of indexing to past rather than looking at the future in decision making process of the individuals and causes inflation to gain inertia.

Central bank keeps the price stability target over the unemployment and growth targets due to the experiences related to inflation and occurrence of theoretical developments. (Goodfriend, 2000: 195). An agreement has been reached in economic field that activist monetary policies appearing in order to increase the production and lower the unemployment under a sustainable level are causing an increase in inflation instead of causing a permanent decrease in unemployment and a permanent decrease in production and price stability undertaking has gained popularity as the priority aim of the monetary policy. (Mishkin, 1997b: 2). Thus, the endeavor of central banks to create the price stability within the scope of living with high inflation has started to increase.

1 There are two sources for the expenses arising by means of economic activity (Davis and Kanago, 1996: 165): The first of them is that it makes it harder to determine correctly the comparative prices of consumer in relation with the inflation in the future and the other one is that it decreases the need for execution of long term agreements of the decision making units due to the increase in the uncertainty in future inflation.

2 Presenting the problems occurred in the case that price stability is not created is required for understating why importance is being given on price stability. (CBT, 2002: 1; Yükseler, 2005a: 5). In the environment in which price stability is not created all the units making decision in economy could not clearly distinguish the price changes easily while taking decisions in relation with the investment and consuming and could not have enough information in order to reach a healthy decision. Investors demand risk premiums due to the uncertainty created by the inflation environment as an addition to the return rate of long term investments in the high and continuous inflation environments and this causes real interest rates which contain risk premium to be high. Inflation prevents carrying out the financial brokership activities of financial markets in a healthy way due to actors in the markets could not foresee the future. An environment in which no price stability is created causes applied policies to be unreliable and prevents governments from having long term and detailed economic programs. High inflation prevents effective operation of workforce markets and disrupts the fair income distribution.

Definition of Economic Stability and Its Main Indicators

Economic stability is defined as “a persistent improvement in the balance of payments and decrease in the domestic inflation speed” (Khan and Knight, 1982: 720). In a national economy, economic stability is related to the proportional relationship between the expenses and the income as well as lots of other conditions. Economic stability depends on the stability of total demand and total supply equation and low inflation; changes in the targets of central bank, decrease in the variability of the total supply shocks (Favero and Rovelli, 2003: 546).

Each one of the internal indicators, inflation, budget deficit, financial growth, unemployment which are facilitated from in determining whether the economic stability is enabled or not, are dynamic elements which change during the process. Although the concept of economic stability is understood as the “domestic stability of a country” which means enabling only employment and price stability, with the development of the economic relations between the countries and fluctuations arising out of such relationships start affecting the external stability of the countries; current accounts balance, exchange rate, export/import ratio and capital movements which are external indicator expressing the external stability started to be discussed, too.

Effects of Inflation Targeting Strategy on Price Stabilization

The main aim of the inflation targeting strategy is, as other monetary policy strategies, to create price stability. In other words, to keep the inflation in low levels persistently in the long term. Inflation targeting strategy, as a monetary policy strategy, set goals in relation with the inflation and undertakes to realize this goals. When we have a look at the country experiences of the countries which apply inflation targeting strategy (such as New Zealand, Canada etc. and other developing countries) a serious trend of decrease has been observed in inflation rates after the start of transition process to the inflation targeting strategy and after its application.

Effects of Inflation Targeting Strategy on Economic Stabilization

Real Effects of Inflation Targeting Strategy

The real effects of inflation targeting strategy could be expressed as the effects of inflation targeting strategy to growth³ and unemployment. The most important macro-

economic indicator is the decrease in unemployment and a tolerable unemployment rate. Having unemployment rate which will not harm the stability of the other macroeconomic indicators, not change the expectations of financial units in a negative way, not discredit the policymakers and most importantly not cause social explosions is one of the main aims of all the economies.

If there is price stability in an economy, public debt stock indicators are low, the budget deficit is low and there is a modest, steady growth performance; the most important externality (positive externality) this may create is the decrease of unemployment.³ In an economy where growth performance is weak, unsteady, unreliable; the rate of unemployment will be high (Kartal, 2011: 80).

Effect on Financial Discipline

Public debt stock ratio to GDP, public sector borrowing requirement ratio to GDP, noninterest surplus / GDP becoming stable shows that financial discipline is enabled (Budina and Vinjbergen, 2008:119). The effect of inflation targeting strategy on financial discipline should be expressed as the effect of inflation targeting strategy on budget deficit / GDP, effect of inflation targeting strategy on debt interest payments, effect of inflation targeting strategy on debt maturities, effect of inflation targeting strategy debt stock / GDP, effect of inflation targeting strategy on public sector borrowing requirement / GDP.

Its Effect on Current Accounts

It is not possible to clearly measure the effect of inflation targeting strategy on current account balance. However, at the very least, budget deficit and current deficit could be associated.⁴

Due to the high interests caused by the high budget deficits occurring in high inflation periods, decreasing the current deficit problems or at least minimizing them should be evaluated as a positive reflection of the inflation targeting. It would be optimistic to associate the removal of the current deficit problem only to the inflation

3 As a result of 2008 financial crisis, certain decreases in Growth and recession tendencies being permanent are main dynamics which increase the unemployment. There is a direct relationship between the growth and unemployment. When we ignore the 2008 financial crisis and when we have a look at the experiences in the countries in which such strategy is applied, an indirect positive effect on unemployment is needed to be expected.

4 This may be explained with twin open hypothesis concept. With the increase in the budget deficit, high interest ratio will arise. Due to high interest rates, short term capital movements will increase. The increase of short term capital movements and country exchange reserves being high, means national currency will be excessively valuable. With national currency having such excessive value, export will be decreased. When the export is decreased this will cause the disruption of balance of foreign trade. Increasing foreign trade causes the extension of current accounts balance.

targeting strategy in developing countries. Because, in these countries, capital goods, intermediate goods such as oil are imported from other countries mostly. Main dynamic triggering the current deficit problem is the dependency to foreign countries in importing intermediate and capital goods.

Inflation targeting strategy has some advantages such as increasing transparency, effective operation of the accountability principle, improvement of financial discipline, increasing cooperation between the organizations responsible from financial policies, easy to understand by public and having a flexible structure. On the other hand it has some disadvantages such as exchange rate instability which may arise out of fluctuating exchange rate system, inability to foresee and control the inflation easily by the monetary authorities and due to this their inability to convey information to the market quickly and inability to prevent the financial dominance.

Inflation Targeting Strategy and Economic Stability in Application

Developing countries were successful in creating the price stability by using the inflation targeting strategy as an alternative strategy in order to create the macroeconomic stability between the industrialized countries before 1990's. Inflation targeting strategy first implemented in New Zealand in 1990 and then it was adopted by lots of developed countries at first and then by developing countries.

Inflation targeting strategy implemented in developed countries has some common characteristics (Masson et.al., 1997: 18-21): Inflation targeting strategy started to be used after the fixed exchange rate strategy had failed. Starting inflation rate of all the developed countries which implemented the inflation targeting strategy was lower than 10%. Independent central bank, dominance of monetary policies over financial policies are the common features of all the developed countries. Inflation targeting strategy in developed countries took the role of enabling the credibility of monetary policies. In some countries this responsibility is taken up by central bank together with the government. They tried to eliminate the external shocks which might occur on inflation by aiming forward looking inflation. Countries generally took CPI as a basis in determining the inflation targets.

Exposure of developing countries to internal and external shocks caused them to become inclined to lower the inflation rates in the second quarter of 1980's (Mohanty and Klau, 2001: 2). Developing countries have troubles in establishing the technical and corporate infrastructure of the inflation targeting strategy when compared to developed countries due to the reasons below: Financial institutions being weak, these institutions to contain governmental inspection and cautious regulations, low

reliability for monetary authority, money substitution, decreasing capital entries and high dollarization (Mishkin, 2004: 3).

To increase the applicability and performance of the inflation targeting strategy in the developing countries creates more problems when compared to developed countries. Because, the economic, social and political infrastructure in developing countries are different than the ones in developed countries. These negative differences affect the success of the economic applications in the first place.

Turkey Example

CBT has explained that they are planning to apply inflation targeting strategy in the program dated 1999 which is supported by IMF. It has been foreseen that, in the IMF supported 1999 dated program, with the start of application of the band which is extending gradually within the scope of the exchange rate announced beforehand during the second half of the year 2001, to turn towards the inflation targeting strategy from the monetary policy depending on the exchange rate completely (Under Secretariat of Treasury , 2000: 12).

It has been emphasized that after the operational independency of the Central Bank in letter of intents, during the year 2002, technical preparations such as strengthening of the public finance so as to provide more independency to the monetary policy, strengthening of the banking sector, increasing the trust to TL, creating inflation reports and advanced inflation forecast models. However, due to being unable to complete the abovementioned preparations, it was not possible to transition to “open inflation targeting” until the end of 2002 and “implicit inflation targeting” is preferred.

2002-2005: Implicit Inflation Targeting Strategy Period

Between 2002-2005, targets are only announced in the basis of CPI price index and for only 1 year later. Goals, which are consistent with the inflation targets by periods for the monetary base determined as anchor, are set. It has been mentioned that short term interest rates are to be used actively in line with the price stability main objective as monetary policy instruments. It has been mentioned that in order to decrease the future uncertainty, year 2002 will start with monetary targeting and at the same time a “monetary policy focused on the inflation of the next period” to be applied.

Year 2006 and After: Open Inflation Targeting Strategy Period

Monetary policy committee started to gather on the dates announced before in order to make interest decision timing and direction more transparent and foreseeable. Important steps are taken in transparency, accountability and communication with the public and basis for conclusions of monetary policy committee started to be published after the meetings. All these developments indicated that prerequisites have been largely met for transition to the inflation targeting strategy and corporate, technical infrastructure has been created and then as it was foreseen, central bank transitioned to an open inflation targeting strategy at the beginning of the year 2006 (CBT, 2006).⁵ The reasons for waiting until 2006 to transition to the official targeting are the wait for inflation levels to reach to a reasonable level, the fear that strategy to lose the trust due to the possible failure of strategy, needing time in order to complete the corporate and technical infrastructure.

General Framework

Support to the monetary policy strategy by the government increases the trust of economic units to the applied monetary policies and inflation targets. It has become a law that the government and central bank to determine what will be the numeric inflation target (CBT, 2006: 20; Kara and Ortak, 2008). “CPI inflation” is determined within the scope of the nature of the target. Within the general framework of inflation targeting strategy, the inflation targets of Turkey for a three years’ period were determined. In the case that there is a deviation towards down or up from the determined target, central bank shall explain the reasons of such deviation to public within the scope of the transparency and accountability principles. The fact that the goals set within the scope of the inflation targeting strategy shall not be changed constitutes a basis. Main communication instrument of central bank is the inflation report which is published in every 3 months. Central bank has adopted, as a principle, to apply a communication policy within the scope of the principles such as efficiency, consistency, transparency and reliability.

5 There are two reasons for the year 2005 to be seen as a transition year: the first one is the monetary reform made by removing the six zeroes from TL. This reform became the indicator to the acquisitions gained during the implicit inflation targeting process and the trust for the permanence of such gains and increased the credibility of the monetary. The second one is the creation of new price indexes by TurkStat. In the transition year technical capacity of the central bank is strengthened, its organizational structure renewed, its internal job definitions became clearer and data set to be taken into consideration during the interest decisions clarified. (CBT, 2006).

Financial Dominance and Financial Depth in Turkey

The presence of advanced and stable financial markets, financial depth ratio and there being no financial dominance is an important condition for the dominance of central bank to become functional as well as being an important criteria affecting the decision to be taken in relation with the applicability of the inflation targeting strategy.⁶ In addition to the regulations made in the monetary policies in 1986, a new era started by means of finance policies as well. In this period, as a result of the limitations brought forward in relation with the open finance in economy to be met from the central bank resources, financial deficits which increase constantly were tried to be met especially by domestic borrowing (Oktayer, 2010: 437). In the period after 1990, domestic borrowing is widely applied and at first it did not seem to create any inflation other than monetization but due to economic and politic uncertainties it lead more and more short term and high interest borrowing and this fed the budget deficits and contributed greatly to inflationist process (Yay et. al., 2001: 51). The year 2001 was a turning point in fighting against macroeconomic instabilities by means of monetary and financial policies. At the same period, independency to the central bank was provided in choosing and applying the policy instruments (Oktayer, 2010: 438). After these developments following the year 2001, a development was seen in the effectiveness of the monetary and financial policies by means of creating price stability in the economy of Turkey.

In the case that the financial markets are not deep enough, governments have to use inflationist methods by heading towards seniorage income and this causes a similar threat for Turkey, too (Oktar and Tokucu, 2001: 25). The most important conditions required in order to implement an inflation targeting strategy is to bring up the effects of monetary policy, taking the monetary policies out of their statue as a policy determined by financial policies, creating an environment which would enable the central bank to be free by the political decision makers.

The positive development in Turkey in order to reduce the financial dominance is the "Law on Regulating Public Finance and Debt Management numbered 4749" which is issued by being published in the Official Gazette dated April 9, 2002 and also known as new borrowing law. With the help of this law, it has been mentioned that the government may borrow to the extent that the level between the expenses stated in the budget and between the estimated budget incomes (Büyükkakın and Eraslan, 2004:

6 With the understanding of how easily the funds needed by the public are procured and how big a pressure it creates on the interest rates is measured by financial dominance as well as the depth of the financial markets (Malatyali, 1998: 54). Development of financial markets plays a preventive role for the usage of its resources by central bank as an alternative to public borrowing. If the financial markets meet the need of public with domestic borrowing, the possibility of Treasury to apply to Central Bank and financial dominance shall decrease.

32-33). “Financial Rules Bill” which is accepted in June, 2010 brought rule-bound financial policy application into the agenda. With the financial rule application, it has been aimed that “trust and stability in economy to be strengthened, financial discipline understanding to be permanent, enabling the extension of the deposit and credit interests by bringing long term perspective to economy policies, enabling the private sector to reach sources with lower cost and longer terms by clarifying the need of public for long term finance”.

The magnitude of the financial dominance ratio causes seniorage, applying for domestic and foreign borrowing and increase in the negative effects of such borrowing instruments on the economy. In the cases that the seniorage is not enough or it could not be applied, applying for domestic borrowing heavily causes increase in interest rates. A government which wants to decrease the weight created on the debt stock by domestic borrowing and preventing the increase in the exchange rates may want to use seniorage as an easy choice and may choose not to give independency to central banks due to this.

Structural evolution Turkish economy had after 1980 has been characterized with high chronic inflations together with the increasing debt weight in 1990's. The main reasons of the crises occurred were finance policies dominating monetary policies and the government's financing their debts with CBT sources. We could say that disciplining the financial policy has facilitated the implementation of the independent monetary policies for CBT, too.

Analysis of The Relationship Between Price Stabilization and Inflation Targeting Strategy

When we inspect the works related to the inflation targeting strategy, it is seen that the works at first are concentrated on the theoretical framework of the strategy but in time they tend to face towards evaluating the economic performance of the inflation targeting strategy. While evaluating the economic performance of the inflation targeting strategy, main macroeconomic indicators such as inflation, growth, unemployment and interest rate and variability in such indicators are taken into consideration. Also comparison of the countries which apply and do not apply the inflation targeting strategy is used.

Jung, Choi and Shambora (2003), expressed that inflation targeting strategy has caused a structural break in the macroeconomic variables and inflation dynamics in New Zealand. Ftiti (2010) has reported in this essay in which he worked with the data from New Zealand, United Kingdom, Sweden and Canada, that the variables were more stable (fluctuations were reduced and predictabilities were increased) af-

ter the transition to inflation targeting strategy. Ascari and Sbordone (2013) have found similar findings in the works they have carried out with the data from USA. Inflation targeting strategy decreases the economic fluctuation and brings the inflation to a lower level. Kitov and Kitov (2012) determined in their works in which they discuss the relationship between the inflation and unemployment after the transition to inflation targeting strategy that this strategy creates a structural break within the framework of abovementioned relationship.

It has been requested to determine whether there were any structural break in the important macroeconomic variables after the year 2002 after which transition to inflation targeting strategy was transitioned to in Turkey. Structural break tests are applied on monthly change in the consumer price index (CPI), monthly increase in the exchange rate basket⁷ which is calculated as the total of ½ US Dollar and ½ Euro, budget deficit/GDP ratio by quarters, current deficit / GDP ratio and GDP growth rate. It has been aimed in the study, by taking the essay of Jung, Choi and Shambora as reference to test the data of Turkey whether there is a start of a break period on the macroeconomic variables of inflation targeting strategy.

Research Method

Chow break test is used which was put forward by Gregory Chow in the research for whether there is a structural break in the year 2002 which is the year Turkey transitioned to inflation targeting strategy. The abovementioned test is based on splitting the time series from the date in which the structural change is thought to be occurred (in this work beginning of the year 2002) And then periods are esteemed separately and models for all observations are estimated and then comparing them to the square totals of the rest. For this purpose F distributable test statistics shown below is used.

Here, the term Q expresses the square of the remains gained from a model estimated by using all observations (expresses as matrix multiplication), the term Q_1 expresses the square of the remains gained from a model estimated by using the observations before the structural break period, the term Q_2 expresses the square of the remains gained from a model estimated by the observations belonging to a period after the structural break period, k expresses the total number of constraints, and T expresses the total number of observations. **Identification of the variables** Variables used in the research are variables consumer price inflation (CPI) which is stimulated or thought to be stimulated by inflation targeting strategy, economic growth to occur in the environment of predictability created by lower inflation environment (GDP growth ratio), exchange basket which is measured for one half TL value of USA dollar and for the other half TL value of Euro, ratio of current accounts balance and budget balance to gross domestic product.

Data choice and Sources

Data chosen covers a period between 1990: I and 2013: I. ARMA processes were used to the degrees where the variables are constant. Monthly observations were used for the series which could be followed up monthly and quarterly observations were used for the series which could be followed up quarterly. According to this consumer price index (CPI); exchange rate basket is used by monthly periods and other series were used by quarterly periods.⁷ Data regarding gross domestic product gained from Turkish Statistics Institute (TURKSTAT) and other data gained from Central Bank of Turkey (CBT). Exchange basket is created based on the data of US Dollars and Euro gained from the database of CBT.

Results of the Research

ARMA processes were researched to the extent that the variables which are discussed between the years 1990-2013 in the research model are constant. All the variables in the exchange rate basket are estimated by AR(1) process, only the estimation process of the exchange rate in the exchange rate basket are estimated by MA process. Then the remains are gained as it was mentioned in the explanation of Chow test which is the main method used in the study and the test is applied. The results of the research are shown in Table 1 below:

Table 1: Results of Chow Break Test

Variable	F test statistic	P value	Result: <i>Structural break in 2002</i>
CPI	30.93121	0,0000	<i>There is</i>
Exchange rates	4.189466	0,0416	<i>There is</i>
Budget deficit / GDP	1.915874	0,1533	<i>There is not</i>
Current deficit / GDP	5.519104	0,0057	<i>There is</i>
GDP growth rate	0.718704	0,4902	<i>There is not</i>

Basic hypothesis: *No structural break occurred at the beginning of 2002. Results are evaluated at the 5% meaningfulness level.*

In Table 1, no structural break is observed by the year 2002 in the yearly growth rate

⁷ All the variables except for the exchange basket are observed between the period of first month of 1990 and third month or first quarter of 2013. Due to the fact that a place was given for Euro in Exchange Basket it only could be observed since the first month of 1999.

in GDP and ratio of budget deficit to GDP.

The results of QA test are shown in Table 2:

Table 2: *Quant-Andrews Structural Break Test Results*

Variable	Maximum F test statistics	P value	Result: Structural break point
CPI	32.77596	0,0000	April 2002
Exchange rate basket	87.88071	0,0000	October 2002
Budget deficit / GDP	13.77974	0,0000	1 st quarter of 2005
Current deficit / GDP	8.411684	0,0050	3 rd quarter of 2003
GDP growth rate	1.239118	0,9532	-

Basic hypothesis: *No structural break occurred at the point where Chow statistic gained its maximum value.*

(*) *As it can be understood from the very high p-values, a structural break period is not observed for the variable of GDP growth rate in the valid meaningfulness levels.*

Results of QA test are given below: As it is expected after the transition to inflation targeting strategy, in a short period of time (in four months) CPI index is shown to have a structural break. It is normal to have such results, because inflation ratio measured as the changes in CPI index in the inflation targeting strategy are aimed. Another variable having structural break in 2002 is exchange rate basket. Another variable having structural changes, although delayed, in 2003 is current deficit / GDP ratio. The break observed in budget deficit / GDP ratio occurred in the first quarter of 2005. Right after the transition to inflation targeting strategy or after a short period of time, these four variables had structural breaks in their period series with a little delay. A similar structural break period could not be determined for the growth rate of GDP.

Since a break is determined for all the variables except GDP growth after 2002, the time series split into two by taking the 2002 targeting strategy transition year as a basis and it has been observed what kind of changes are there by means of descriptive statistics in the time series of each variable in the pre and post 2002 period. Also, in the post 2002 period the inertia of the time series are determined by carrying out a root testing. The results are given in Table 3:

Table 3: *CPI, Exchange Rate Basket, Budget Deficit/GDP, Current Deficit/GDP, GDP Growth Rate Descriptive Statistics Before and After Inflation Targeting Strategy*

Variable	Average Before 2002	Average After 2002	Standard Deviation Before 2002	Standard Deviation After 2002
CPI	4,75	0,87	2,64	0,99
Exchange rate basket	4,56	0,37	5,89	3,51
Budget deficit / GDP	-13,04	-9,22	8,47	12,64
Current deficit / GDP	-0,87	-4,90	2,81	3,06
GDP growth rate	3,52	5,20	6,07	5,37

As it can be shown from Table 3, in the period in which the inflation targeting strategy is applied after the year 2002, a decline is observed in the absolute value of the averages of inflation rates measured by the consumer prices, exchange rate basket, budget deficit / GDP ratio and the average of growth rate is increased. During this process the only variable for which the average value is negatively affected is the current deficit / GDP ratio.

When we have a look at the standard deviation values showing the fluctuations of the variables the fluctuations of other three variables except for budget deficit and current deficit ratio to GDP are decreased. In the post 2002 period, the inertia of abovementioned variables are observed and thus studies have been carried out in order to understand whether they offer a stable look in inflation targeting strategy period. The results of inertia test carried out via extended Dickey Fuller (ADF) test with fixed terms included are given in Table 4.

Table 4: *Results of the Inertia Test Carried Out For the Post Inflation Targeting Strategy Period*

Variable	ADF test statistic	P-value
CPI (Fixed)	-8.23	0,0000
Exchange rate basket (Fixed)	-8,55	0,0000
Budget Deficit/GDP (Fixed)	-3,00	0,0431
Current deficit / GDP (Fixed and with trend)	-3,76	0,0297
GDP growth rate (Fixed)	-3,07	0,0367

Main hypothesis: *There is a unit root in the time series of the variable (no inertia).*

Delayed value numbers are determined with Schwarz choice criteria in ADF test

equations. According to this, 0 in CPI and Budget Deficit / GDP ratio, in exchange rate basket and GDP growth, 4 in current deficit / GDP ratio ADF test equation is solved with delayed values.

All the variables in the period after 2002 are inert at 5% meaningfulness level (even in the 1% meaningfulness level of CPI and currency exchange basket). In the period after 2002 each of the macroeconomic variables examined within the scope of inflation targeting strategy are found to be inert. Due to this, in this study, findings gained in relation with there is no stability for the macroeconomic variables such as consumer price index, exchange rate basket, budget deficit / GDP rate, current deficit / GDP rate and GDP growth ratio in Turkey in the period after 2002. This work shows that the inflation targeting strategy has met its aim on the basis of these variables.

Conclusion

Price stability, full employment, growth and payment balance has always been the main aim of the monetary and finance policies throughout the history. Price stability aim always has a priority when compared to others. In 1990's there was a large consensus that the main aim of the central banks should be creating a price stability. Within this context, lots of countries including Turkey, preferred legal regulations in the direction of creating price stability should be a priority in Central Bank laws.

General consensus reached in relation with the price stability has placed concepts such as independence, transparency and accountability into the agenda of central banking. Concepts of independence, transparency and responsibility are summarizing the changing face of the central banking and monetary policies. Without doubt this the scientific debates and researches about monetary matters in these developments carry significant importance.

Those who apply monetary policies and monetary economists are turned towards looking for new policies in order to solve the problems arising due to not being able to efficiently use the strategies which are based on monetary targeting and exchange rate targeting of central banks. As a result of such researches, in the beginning of 1990's inflation targeting strategy came up.

At first there was some hesitation for some countries to make the transition to the inflation targeting strategy due to developing countries not being able to meet the necessary requisites for inflation targeting strategy, as it was the case in Turkey, satisfactory evaluations regarding the performance of the strategy could not be carried out. Nevertheless it is possible to anticipate the popularization of the inflation targeting strategy even more in the future. With the globalization, monetary and exchange rate targeting strategy applications became harder to apply and it can be shown as a

reason that some developing countries such as Turkey preferred this strategy as the last resort in creating the price stability.

Enabling the continuity of the stability created in application plays an important role in popularisation of the inflation targeting strategy. It is possible to summarize the evaluations in the light of the experience had in the period since the start of the application of inflation targeting for the first time to 2015: While evaluating the performance of the inflation targeting strategy it has been determined that inflation rates, inflation expectations and interest rates are decreased and also the fluctuations belonging to such variations are decreased. Comments are made regarding that it would be hard to fully determine what is the role of inflation targeting strategy in decreasing the inflation and that it is not essential for the inflation targeting strategy in decreasing the inflation.

While the general tendency arising out of this discussion of whether inflation targeting strategy is permanent or not are going on; from the experiences gained in the ten years application period and extraordinary developments in the communication technology, it is possible to state that inflation targeting strategy shall be permanent and will play the role of being an important monetary policy application especially for the developing countries in creating a price stability.

We can count the results of the study carried out with the purpose of determining whether the inflation targeting strategy is the start of a structural break period in Turkey by means of macroeconomic variables (consumer price index, exchange rate basket, budget deficit / GDP rate, current deficit / GDP ratio and GDP growth rate) and evaluating the performance of the inflation targeting strategy. The date of structural break is very close to the date on which the inflation targeting strategy started to be implemented. Fluctuation in the inflation ratio is decreased significantly. After the inflation targeting strategy, domestic prices (CPI) in Turkey and external prices (exchange rates) had a significant amount of stability. Budget deficit / GDP ratio had a structural break in the 1st quarter of the year 2005. Budget deficit / GDP ratio decreased a short time later after inflation targeting strategy. There is a meaningful decrease. Current deficit / GDP ratio is the variable which is affected negatively by the same process. After 2002 period, current deficit is a structural problem in Turkey. High current deficit is a situation which depends on global liquidity and dependence of export to import. There is no structural break in GDP growth rate. Because, due to political stability, a strong growth tempo is present in Turkey in last 12 years. The average of GDP growth rate has increased.

Post 2010 was not a period in which the inflation targeting strategy is removed but in which no conventional inflation targeting instruments were used and they were tried to be diversified. The interest increase at the end of January, 2014 shows that CBT could not be able to carry on with their experimental applications anymore and

prefers applications more parallel with the easily understood literature within the scope of new policy.

The main feature of the inflation in Turkey is that it has a strong inertia. Inflation targeting strategy is a strong anchor to positively form the expectations and break the inertia in the inflation. Due to the fact that the only anchor to be used in ending the use of monetary anchor and exchange rate anchor and creating price stability is the inflation targeting strategy, it would be beneficial to refrain from all kinds of words and actions which might affect the persuasiveness of this anchor in a negative way.

CBT is used as the single policy instrument in inflation targeting strategy. The policy instrument is uses is interests. The first aim of CBT is price stability. CBT had two aims after the year 2011 as price stability and financial stability. A single policy instrument was not enough for meeting such aims. Central bank wanted to put the inflation under control with a single policy instrument. CBT, while meeting the price stability aim, may affect financial stability in a negative way. While the prices become more stable, the stability in the financial side may be disrupted. Dur to this, CBT transitioned to experimental applications.

When it is taken as a reference that the inflation targeting strategies from monetary policy strategies were applied for a very long time with success in Turkish economy and when we consider the fact that monetary policy strategies applied before in Turkey economic precaution packages were in short time and successful; it may be suggested that inflation targeting strategy should be kept on being implemented so as to not to harm the reliability arising out of this strategy was being implemented for a long time in Turkey.

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7

IMPLICATIONS OF GLOBALIZATION FOR FINANCIAL STABILITY AND GREAT FINANCIAL CRISIS: A VIEW FROM CENTRAL BANK OF THE REPUBLIC OF TURKEY

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Abstract

The financial stability of the system is an essential feature for effective monetary policy and the economy as a whole. The concept of financial stability means steadiness and solidity against shocks in financial markets, market institutions and payment systems. This paper studies how globalization affects financial stability and Great Financial Crisis. An emphasis is made on the consequences that have a vital significance for further research. The problem of financialization and Great Financial Crisis is emphasized in terms of adjusted monetary policy and financial stability as a new target aimed towards the attainment of a macro-economic balance. The last section stages a framework in which Turkey is used as an individual case study taking into major cognizance the use of accurate data; which propelled an insight review into its database. In parallel with the world, there are some amendments that have been made regarding main tasks of the Central Bank of Republic of Turkey after the crisis. To provide financial stability, CBRT pursues studies to determinate probable risks and fragility in the financial system and to develop alternative policies targeted towards overwhelming this negative effect observant in the whole financial system.

Introduction

The debates on globalization have been actively continuing and have been related to high sentiments and passionate clashes in last 30 years. The fact remains that, “globalization” is a kind of is a ambiguous term/period under that continually and intensely combined with world economy and included its economic, cultural, societal, technological, political scopes. During 1990s, in the literature of economics, implications of globalization associated with income distribution, wealth, economic growth, development, environment and future of capitalism etc. However, the discussion on

globalization and implications of globalization in the literature after Asian Economic Crisis mainly focused on its monetary features together with optimal monetary policy framework, implications of monetary policy and financial stability.

In 30 years, financial markets deepened/developed, capital flows all over the world huge amount increased and real and financial markets heavily integrated with each others and as a result of this process the world economy noticeably changed. According to Frenkel (2006) several economic crises have been closely linked to the weaknesses of financial markets like Enron, the Asian financial crisis, the Russian financial crisis and GFC. While the structure of the world economy has changed, moreover main actors (especially rising prominence of China, India, BRICS, new members of G20 etc.) in the markets also changed.

The growing role that capital markets play in the modern economic system and the increased integration among national capital markets has shifted the policy attention toward securing financial stability. During the past few years, it has become clear that the traditional policy objective of securing price stability needs to be augmented by an additional policy objective: securing financial stability. After all, it is the weaknesses in the financial system that has been at the centre of recent economic crises. As a result, much more attention is now given to the structure of the balance sheets of banks and financial institutions, to the role of transparency, as well as to the design of regulatory, supervisory and prudential systems.

Financial globalization, the liberalization of the financial system to open it up to inflows of foreign capital, has several important benefits in emerging market economies. First, it lowers the cost of capital, thereby encouraging investment, which promotes growth. Second, when foreign capital and financial institutions are allowed to enter a country, they improve the allocation of capital. Third, globalization of the financial system helps promote the development of better property rights and institutions that make the domestic financial sector work better in getting capital to productive uses.¹ However, financial globalization is not necessarily always a force for good: it can go very wrong. Opening up the financial system to foreign capital flows can and has led to financial instability and disastrous financial crises, which have resulted in great pain, suffering and even violence. (There was widespread ethnic violence in Indonesia after its crisis and in the wake of Albania's financial crisis there were around 2500 casualties.) This is why financial globalization is so controversial. Thus, the issue is not whether financial globalization is inherently good or bad, but whether it can be done right.

This article provides a general overview of the impact of financial globalization on financial stability with a view to identifying sources of strength and potential vulnerabilities. Undoubtedly, the financial system has benefited from the globalization of

financial markets and financial institutions. Financial globalization, however, may have also created new risks to the stability of the financial system. In this paper, first section will be introduction, second section will be describing and arguing financial stability, and then discussing the implications of globalization on financial stability. The last section will mostly focus on a new role of financial stability from a view of CBRT and other strategic aspects of monetary policy related to globalization.

From Price Stability to Financial Stability

The financial crises have been following economy of central banks in different countries since 1930s including developed and emerging countries. The unprecedented policy actions have been taken in order to struggle against deep recession and crises. The depth of the last financial crisis has identified the necessity to rethink the foundations of financial stability and all above; the financial regulations that have shown the inability of market players adequately evaluate the systemic risk. However it is mistaken to think that financial stability means that even during the bankruptcy financial intermediaries (institutions) will not be abolished (Čihák, 2006:7).

It may be, for example, if financial intermediaries' services have close substitutes available for potential borrowers, but this definition does not include some important points. For example, there is no mention of asset bubbles. So, an explosion of asset bubbles during the recent crisis has shown that not all of them lead to a breach of financial intermediaries. Asset bubbles will affect the financial stability only if key financial intermediaries use high leverage to buy assets in the market that inflated the bubble, so they will be severely affected when the bubble bursts. In such a situation they may encounter with balance constraints, the ability to significantly disrupt the intermediaries service, and thereby adversely affect to the real economy. Not all asset bubbles reflect the financial instability; only those that affect the institutions involved in financial intermediation of real economy characterize it. Formation of asset bubbles helps to illustrate how the definition of financial instability, it is important to understand what tools needed to counter (Illing, 2001:3-5). In addition the traditional method of central bank regulation need to be changed due to critiques from academics and decision makers and the main reasons are first narrow focus of this approach and inadequate way of defining the financial sector risks; second is an unawareness of cross-border spill overs of monetary policies that can complicate monetary policy management, accentuate the volatility of real activity and increase financial-sector risk. Third is the fact that countries can follow different types of monetary regimes (e.g., inflation targeting and exchange rate targeting). Finally the high levels of government debt in advanced countries and the slowing growth of traditional export markets for developing countries create new sources of political pressure that central

banks will find difficult to ignore.

The main issue in policy independence is that a theoretical framework of traditional monetary policy does not fit it in practice, which means that flexible inflation targeting experiencing by countries may not be fully “flexible” (Carney, M. 2012). This is because international transmission occurs even under flexible exchange rates, through both trade channels and capital flows. The results include the prospective re-emergence of global imbalances as well as the rise of trade and capital controls when countries seek further insulation from cross-border spill overs (Stone, M, et.al, 2009).

Defining the Financial Stability

After 2008-09 financial stability has been receiving attention from academics and policy makers from around the world and one of the main reasons for this was Great Financial Crisis and its aftermath. The costs of the GFC have changed the trend of governments of the countries and other authorities toward developing new strategies that take into account previous gaps of financial sector infrastructure. Despite of this, the focus on systematic risk and financial stability increased recently; however there is no widely accepted definition of the concept, which in fact has generated a lot of debates. Defining “financial stability” is essential for developing tools and frameworks of the concept. In literature, two directions of definition exist; first are economists that define financial stability and second who attempt to define financial instability.

The first category of economists includes Crockett (1997:2-3) who stated that the financial stability exists when financial system functions without external assistance and took into account financial intermediaries and markets. Foot (2003:14) in his research along with financial stability mentioned the importance of monetary stability. Also, he defined the essence of maintaining the confidence in the financial system and its linkage with the real sector and natural rate of unemployment. Next is Schinasi (2004:7) and his research of the financial stability has underlined endogenous and exogenous shocks. Another research emphasized the shocks and also considered the resilience of the financial system that might have negative effect on countries economy (Padoa-Schioppa, 2002).

The second group consists of such economists like Mishkin (1999), Davis (2001) and Ferguson (2003). According to Mishkin (1999) financial instability caused by asymmetric information and in this case financial intermediaries are not able to transfer funds that will have an adverse effect on economic performance. Additionally Davis (2001:13) highlighted the financial crisis that causes the financial instability

and systemic risk. Also his definition emphasized the importance of financial system to foster the real economy via provision of credit and payment services. And as a last Ferguson (2003:26) described financial instability in terms of distortion of asset prices, aggregate spending and market failures that entailing disruptions to real economic activities.

This review of the academic literature has discovered the variety definitions of financial stability and instability that also was summarized in Appendix A, as adopted by 13 central banks in order to clarify their objectives and strategies.

Financial Stability Debates After Great Financial Crisis

The current crisis has contributed a restoration of discussion about how the central bank has consider changes especially in financial asset prices and credit volume growth. In GFC world economy is experienced that while striving to succeed the price stability, the Central Bank can limit credit growth and asset prices. According to BIS (2012) rapid credit growth could be reason an increase in level of the asset prices that it can cause a sudden increase in total consumption and investment.

In the US, the financial regulation reform draft has been developed. According to this regulations the institutions that take deposit have been recognized as inefficient. The project proposes to simplify and consolidate the current structure of governing bodies. The basis of the updated structure is necessary distinction between the regulation of market stability for maintaining the overall stability of the financial market, prudential regulation in order to limit exposure to market discipline arising from guarantees to states for individual financial institutions / firms, and rules for business.

According to the draft framework, the Federal Reserve has to be a common “market stability regulator” and responsible for the overall stability of the financial system. The powers of the Federal Reserve will include the collection of data on individual institutions, cooperation with other bodies in the formulation of regulations, implementation of corrective actions to maintain the overall financial stability. The project also gives the Fed authority to oversee payment systems. Separate federal regulators will oversee all institutions that take deposits, as well as on insurance companies. Business regulator will monitor the market practice in the financial industry. “Its organizing principle is “regulation by objective,” distinguishing between, market stability regulation, to address overall financial market stability; prudential regulation, to address limited market discipline caused by explicit state guarantees (for banks and insurance firms); and Business conduct (consumer protection) regulation, to address standards for business practices and products (Securities and Futures Commission, 2011)”. A centralized well-advised regulator would supervise whole deposit-taking

financial institutions, are envisaged to continue to enjoy explicit government guarantees (Bernanke, 2008b).

In the UK, also formulated proposals to strengthen financial stability. Thus, it is proposed to entrust the Bank of England powers of the body responsible for financial stability, the authority to rehabilitation of financial institutions, as well as regulation and supervision of systemically important payment systems. As part of the Bank of England created a new Committee on the financial stability of both the supervisory board, not part of the system of executive bodies. Also in Germany, the Bundesbank and the Federal Financial Supervisory Authority shared responsibility for banking supervision for long time. However, bureaucratic problems increased because of powers division was not definitive and open. In 2008 February, division of the powers and responsibilities clarified. (Nier, et. al 2011:21-22).

In the early 2009, former head of the Bank of France Jacques de Larosière and his working group have recommended to change the pan-European structure of financial regulation and supervision in the euro area. Current regulation is proposed to leave to the national authorities and establish (Nier, E. & Baumann, U., 2006:16):

- Macroprudential authority within the European central bank (ECB), consisting of members of the General Council, that is, the heads of central banks of member countries of the European Central Bank and the head of the European Committee for Banking Supervision (CEBS);
- Micro-prudential supervisory authority, including the committees of banking, insurance and securities;

These goals - managing systemic risk and the need to protect consumers - are inter-related and often complement each other. The difference between these goals is the goal of consumer protection is more general, covering wholesale and retail markets, and the purpose of systemic risk management that is narrower.

Trying to protection of consumers and systematic risk management would be conflicting. Thus, the measures taken to protect the participants in a specific market (consumers or participants), in some cases, may have undesirable consequences, increasing systemic risk. The measures are aimed at protecting savers, for example if the bank capital is increased, it can be harder to find credit in the markets particularly when financial institution have limited access to the funds in hard times. Financial institution regulation can be grouped such as:

4. Prudential regulation, including traditional regulation of capital and liquidity. Perhaps special attention to weak institutions needed.
5. Problem-solving tools, including the Central Bank and loans scheme of compulsory insurance of deposits and other retail products. An important addition is the

special troubleshooting mode.

6. The supervision of payment systems.
7. Regulation of doing business, in particular through measures of correction of information asymmetry in the retail and wholesale financial markets.

Usually prudential tools are used to reduce systemic risk, but they have so much potential. For example, the counter-cyclical capital buffer for financial intermediaries - this is an example of macro-prudential tools reducing the macro systemic risks

Central Bank's Role in Financial Stability

Historically the central banks started to be involved in financial stability with the issue of money as paper currency (i.e. banknotes), that replaced former metallic currencies. The involvement further developed when a substantial share of the money stock were built by bank deposits. In the 19th century acting as the sole issuer of legal tender was accepted. In the United States the process took longer, while in 1913 was founded the Federal Reserve System. Therefore, in the first quarter of the 20th century the total money supply consisted of combination of largely fungible and risk-free central bank money and potentially risky commercial bank money (Padoa-Schioppa, 2002:3-4).

There is strong empirical and theoretical evidence that, at times, public intervention may be needed to ensure financial stability. Banking is plagued by inherent instability, which cannot be removed if the economic benefits of banking are to be realized. Moreover, the banking sector functions as a closely inter-linked "system", which is prone to contagion risks through the payment system and interbank markets. The involvement of central banks in financial stability originates from their role as issuers of money. Central banks – like any soundly managed financial institutions – need to monitor the quality of their counterparties. This is in addition to the role of central banks as ultimate providers of a safe settlement medium and liquidity to ensure the orderly functioning of the financial system. Finally, it is important to recognize that these two special reasons why central banks are involved in financial stability are independent of whether or not they have formal supervisory functions (Padoa-Schioppa, 2002:11).

After GFC when financial stability and macroprudential policy took leading position in preventing systemic risks many countries left the central banks as a decision-making institution, however separate organizations also was created in order to take responsibility of imbalances in financial system and real economy. In addition the international organizations like IMF considering global financial stability in order to

avoid the repetition of crises of the past.

When Central banks have a leading role in macro-prudential supervision, the main responsibilities of central banks relate to the maintenance of monetary and financial stability. Indeed, the analysis necessary for carrying out macro-prudential tasks can partly be based on the economic and monetary analyses undertaken by central banks for the formulation of monetary policy, although additional information and analysis of vulnerabilities in the financial system would also be required. Furthermore, central banks have a crucial financial safety net function through their role as lenders of last resort; provide systemic liquidity; design and oversight of systemically important payment and settlement systems.

Provision of Systemic Liquidity: When GFC happened, most of the central banks have taken flexible responses, expanding the scale of its operations, extending the maturity of the instrument by increasing the range of collateral, increasing the number of counterparties and introducing swap lines of credit in US dollars. In addition, they used the guarantee and direct purchase of securities of the private sector. While these actions are clearly vital to prevent the collapse of the market, a list of specific innovations has also spawned a number of factors of concern - from the distorted market incentives to swelling central banks' balance sheets as a result of transfer of risk to the requirements of the private sector or the appearance of risk glossing signals applied politics. In emerging markets, central banks have also been forced to balance between providing the necessary support to facilitate the liquidity and the risk of capital flight (Brunnermeier & Sannikov, 2013:12).

Operating basis of systemic liquidity was expanded force is necessary, and in many ways it must be retained. But it is equally obvious that require an orderly departure from the pile special measures. For example, central banks should not be left to the long-term consequences of credit problems, as this may lead to distorted policy choices. At some point, probably require a mechanism for the transfer of assets acquired by the central banks fiscal authorities and / or asset management companies. It will also require wider adoption of proactive measures to strengthen infrastructure repo operations on the money market (for example, need to be create a central clearing service of transactions with counterparties), along with changes in bank regulation in order to strengthen incentives for ownership high-quality collateral (Jacome, & Francisco, 2008:32).

Since the realization of systemic risk and its containment through liquidity provision is costly for central banks' objectives, central banks have an interest in reducing the frequency of systemic liquidity stresses. This implies an interest in the regulation of key private liquidity providers (such as commercial banks) and the regulation of markets whose collapse might lead to solvency and liquidity stress at these institutions (De Larosière de M. L. & Diego Moccero, 2011:7).

Lender of Last Resort and Resolution of Failing Institutions: The Central Banks have traditionally provided loans to individual banks, faced with the outflow of liquidity and unable to get funding in the interbank money market. The role as lender of last resort, the Central Bank is involved in the process of resolving problems of individual systemically important institutions, faced with a lack of liquidity. It is generally accepted that the actual performance of the functions of the Central Bank as a lender of last resort and an agent to resolve the problem systemically important institutions gives him the right to regulate and oversee those institutions for the following reasons (Ratnovski, 2009:14):

7. The Central Bank can assess solvency, based on the long-term viability of the Institute only if based on data supervisory authority.
8. Access to the supervisory information helps measure the systemic exposure of the Central Bank of bankruptcy of a separate institution to other institutions and the economy.
9. As lender of last resort, the Central Bank provides liquidity to individual institutions. He is interested in the prudential regulation of liquidity and efficiency of supervision of institutions that may need his credits.
10. By virtue of the execution as a “fire brigade” of the Central Bank is faced with the potential threat of losing reputation because of possible errors in the resolution of crises.

Therefore, the Central Bank is interested in the prudential regulation (capital and liquidity), systemically important financial institutions, as well as in the effective supervision.

Oversight of Payment and Settlement Systems: Traditionally, the Central Bank regulates and oversees the systemically important payment systems. In recent years, great strides in reducing the systemic risks of national and international payment systems. The main payment system in industrialized countries is largely due to this to avoid stress during the crisis. In the absence of formal rights such control of the Central Bank is largely based on moral standards. But it can influence them through prudential regulation and supervision, which is particularly evidenced by the practice of some Central Banks like Austrian National Bank.

After Gfc, Financial Stability and Central Bank of the Republic of Turkey (CBRT)

After the global financial crisis, although experts still cannot value the toxic assets in financial institutions correctly, in financial rescue plans financial education of people is one of the topics in most countries. The Turkish Central Bank also emphasizes that financial education is important to its affiliation for financial stability. Based on the notion of financial education, Turkish Central Bank also makes joint studies with concerned national and international institutions within the context of social responsibility.

For the Turkey case, CBRT has prepared its framework depending on above mentioned flexible and effective inflation targeting regime with the well regulated and crisis experienced banking system. Turkey has some advantages in terms of having strong and well regulated banking system, flexible and effective liquidity management framework and experience gained from several crises that makes possible to do small adjustments on the general framework of CBRT's monetary policy. The structure of the Central Bank's balance sheet was not damaged during the crisis period as it happened in other countries. Thus, the Central Bank's exit strategy from the crisis period was simpler and easier than that of other central banks. The Central Bank implemented an effective communication policy with the public about the existing liquidity management strategy, transmission mechanisms and the liquidity facilities to be in use starting from the deepening of the crisis in October 2008.

The expansionary monetary policies, which were adopted by central banks of developed countries in the aftermath of the global financial turmoil with the aim of containing the impact of the global crisis, had significant implications for developing economies and Turkey was no exception. During this period, the availability of ample and low-cost short-term foreign financing led to a rapid credit expansion and appreciation pressure on the Turkish lira. This brought the accumulation of macro-financial risks and rising external imbalances as of the second half of 2010. As escalating risks pertaining to financial stability have the potential to hamper price stability over the medium term, different approaches for incorporating financial stability into the monetary policy framework started to be discussed in the academic literature and policy institutions (Borio, 2011: 2-3).

The years of 1994, 2001, and 2008 were main economic crisis in Turkish economy. Almost main reason of those crises was suddenly stopping of capital flows. Also there are enough experience and proofs in Turkish economy how capital flows and economic crises could be reason of achieving or not macroeconomic stability. It would be useful to looking at post crisis dynamics in Turkish economy for understanding how capital flows effects on macroeconomic stability and the full picture of policy

approaches of CBRT after 2010. Continued domestic demand and prepared strong basics of the economy helped very quick recuperation in Turkish economy In 2009. Revival in capital movement fuelled on the part of loose monetary policies for of industrial economies and generally low interest rates supported increasing credit volume and caused to disproportionate increase in the value of Lira.

Prompt growth in credit volume caused the increase in total demand. Appreciation of Turkish lira resulted with increasing demand for imports however, there was no positive improvement for exports under the prevailing conditions of fragile outward demand and increasing in the value of Turkish lira. Consequently unfavourable balance of trade and external current account depreciated particularly and resulted with increasing vulnerability of the economy against sudden reversals in the global risk enthusiasm. After last quarter of 2010, short term capital and portfolio investments became almost main financier of the current account deficit (Akkaya & Gürkaynak, 2012: 107).

New Monetary Policy Framework with Concern on Financial Stability

The CBRT build and employed a new policy framework, which consider macroeconomic threats. CBRT revised inflation targeting policy rules and designed supplement new policy tools for seconding the alteration of the financial stability. Policies employed by CBRT was focused on eliminating and dealing with macro financial risks in this period while keeping price stability.

Information on Turkish financial stability and macro financial risks are notable from course of capital flows and current account balance. Exchange rate clashes on balance sheets and credit growth increasing maturity; those both cause the accumulation of risks by deforming resource allocation. Rapid credit enlargement and appreciation of the local currency devaluates the current account balance. The volatility in external financial flows and the deterioration in current account extend the risk of a sudden stop. This can be understood as kind of systemic risk. That is way are the current account balance and the capital flows in the center of the new policy framework together with traditional variables as credit. Consequently, policies implemented since the end of 2010 focused on lessening the possible adverse effects of capital flow volatility. They were aimed at soft landing and mending the external financing structure. Due to the global financial crisis and decreased external demand, foreign trade and current account balance experienced a notable deterioration (see Chart 1 and Chart 3) that increased the vulnerability of the economy against sudden reversals in the global risk. Thus, the excessively volatile nature of global risk in the post-global

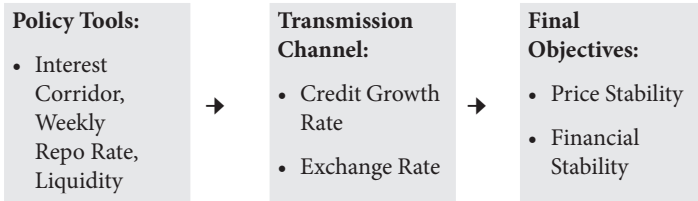
crisis world together with increasingly short-term nature of current account finance raised further concerns about financial stability. The current account deficit has been financed almost completely through short-term capital and portfolio investments, which increase the vulnerability of the economy in the last quarter of 2010 (see Chart 2) (TCMB, 2012:2).

In Turkey, it is always necessary but not the sufficient condition to achieve balanced composition of foreign financing in order to have economic steadiness and continues economic growth. As it shown in Chart 4 all of troughs in economic movement combined with a sudden stop in capital flows occurred in 1994, 2001 and 2008 crises. In order to mitigate the vulnerability of the economy, a more flexible approach of monetary policy is required. All of these conditions being given, after 2010 CBRT proposed and employed a new monetary policy outline. From this point of view, the general framework of inflation targeting was attuned. Also the aims of the price stability and financial stability were implemented for supplement. Added policy instruments were announced to the monetary policy framework in order to achieve multiple targets (TCMB, 2013: 15).

The main target of the new policy design is to strengthen the resilience of the economy against both internal and external vulnerabilities that caused by increase in credit volume and hot money (credit outflows/inflows) movements. In Turkey, most important indicators for financial stability and macrofinancial risks are current account deficits and the progression of capital flows. After at the end of 2010, regarding the macroeconomic policies employed were focused mostly on lessening the contrary impacts of changes in capital movement instability, targeting to reduce effects of hard downing, developing and reducing dependency to the outward funding constitution.

New Instruments of Adjusted Monetary Policy

Central banks primarily use the short-term interest as a unique policy instrument for purpose to keeping inflation between targeted gaps. Nevertheless, in the new designed and implemented monetary framework by central banks may need supplementary tools have to keep financial stability and price stability. The new monetary policy combination required using combined interest rate corridor (IRC) among overnight borrowing and lending rates, liquidity policies and required reserves (RR) in addition to short-term policy rates (Başçı & Kara, 2011:6). That graphically can be represented as shown below :

Figure 1: Aims of CBRT and Policy Tools

Source: Consolidated according to Kara (2011:6), Siriner (2013:38)

When the new policy tools were first introduced into the transmission mechanism, the role of IRC and RR were mainly ambiguous. Thus, in order to introduce these tools, CBRT made additional efforts in terms of communication policy. To enhance the communication about the transmission mechanism, the CBRT defined two intermediate variables such as credit growth and exchange rates. Since these variables are directly observable and the relevant data are available at any time, economic agents can easily follow and analyze them. Moreover, the linkage between the intermediate variables and the final objectives are straightforward in the sense that they can be easily connected to each other. This adjusted approach provides a more reliable and effective communication regarding the monetary policy implementation (Ekinci, 2013 & TCMB, 2010, 2013).

If the traditional monetary policy is implemented, which means that the single object is price stability and the only instrument is the short-term policy rate, there is no need for the central bank to have a separate force on credit and exchange rate channels. Only the net impact of these channels on the inflation matters. Nevertheless, in the adjusted monetary policy framework it does not work as described. As an example, imagine traditional inflation targeting regime in which inflation overpasses the target because of an increase in domestic demand. CBRT has only to increase the policy rate, which brings inflation back to the target path. Higher interest rate will reduce the credit volume. This will usually lead to an appreciation in domestic currency due to higher capital inflow (TCMB, 2010).

So we can observe two separate effects; decreasing credit volume and appreciation in domestic currency; and these work in the same way and lead to a decrease in inflation together. Thus, to raise policy goal under conventional inflation-targeting regime could be reached. Nevertheless, when central bank sustains also the macroeconomic stability or financial stability, increased policy rate can't be desired one, because of this process will help to appreciation of exchange rate. As the monetary authorities require financial stability objective, it is necessary to use the credit rate and exchange rate instruments separately. Therefore the central banks might need to

run also the other channels besides the short-term policy rate to be able to influence credit and exchange rate in the desirable direction. As a result the CBRT enlarged the collection of policy instruments in the time of the adoption of the new policy framework.

Conclusion

The present work proposes an analysis on the monetary policy framework that focuses both on price and financial stability for the Turkey case, in order to capture the recent design of monetary policy implemented by CBRT that has a broader scope since it considers an inflation targeting strategy that encompasses financial stability.

In broad sense financial stability is the situation of effective fulfilling of economic functions, such as payment system, hedging, and efficient allocation of resources in the period of short term volatility, shock or structural changes. In the narrow sense financial stability is not having long-term volatilities in the asset prices. Financial system always has a tendency in accordance with in stability bias. In this respect Central Banks have to operate in financial system as The Bank of Banks and the Final Credit Authority. Nowadays, while the primary aim of Central Banks is to maintain price stability, their secondary aim is to maintain and sustain financial stability. Interest rate smoothing is serving as a bridge in the process of monetary policy to maintain financial stability. Shortly, The Interest Rate Smoothing Rule is a gradually partial adjustment process of the short-term interest rate due to the change in the desired interest rate, which shows financial stress. In addition to the other benefits, The Interest Rate Smoothing Rule is a powerful tool for maintaining confidence and reducing financial stress. While a statistically significant interest rate smoothing rule indicates monetary policy aims financial stability, a high smoothing coefficient points out that monetary policy has the power of maintaining and sustaining financial stability. In order to reach the conclusion that financial stability is maintained and sustained, the other monetary policy applications aiming financial stability, supervision and regulation function should be taken into consideration.

After CBRT's independence of purpose and instrument was maintained in the post-2001 The Program for Transition to a Strong Economy period, the primary aim of the CBRT is to maintain price stability while secondary aim is to consider the financial stability. Banking Regulation and Supervision Agency that is operating effective supervision and regulation actions also have contributed to this process efficiently. Interest rate smoothing was estimated for analyzing The Central Bank of The Republic of Turkey's capability to maintain financial stability for a period after May 2001.

According to result of estimation the CBRT reaction function is captured the movement of short term interest rate in a high range. Furthermore interest rate smooth-

ing coefficient also featured a high value. According to this result in the post 2001 period Central Bank of The Republic of Turkey has used interest rate smoothing and smoothed the short-term interest rate in a high range. Validity of interest rate smoothing demonstrated at in the post 2001 period financial stability had been aimed and the capability to maintain and sustain financial stability was high. When this conclusion is evaluated together with the conducted monetary policy, Banking Regulation and Supervision Agency's effective supervision and regulation applications and financial strength index in the post 2001 period, it is seen that financial stability has been maintained and sustained in the period mentioned.

In section one it is underlined an importance of theoretical and conceptual frameworks of financial stability and its role in macroeconomy after Great Financial Crisis. Due to the different definitions of financial stability term the variation in defining the indicators and indexes appeared. This research specified the focus on two main indicators that are Financial Soundness Index and Financial Vulnerability Index. These indexes covers wide spread of indicators and according to IMF show accurate picture of current position of financial markets and real economy. Second essential topic is the decision making institutions that was divided into three main directions, where the role of Central Banks was on the first place due to the fact that in the most countries it is still ruling a monetary policy and financial stability in the same time. However the essence of IMF and other institutions like FSOC and ESRC were analysed.

Section two observed how the financial crisis and Great Recession have forces a rethink of central banking and monetary policy. The change focuses on main three topics; how the monetary policy should deal with asset bubbles; central banks becoming the banking system supervisor; and the issue of negative bound of nominal interest rates.

In section three the period from the end of 2010 is considered, while the new CBRT policy framework takes into account also the macro financial risks. Therefore the financial stability was adopted as a complementary objective, so the traditional regime of the inflation targeting was enriched by additional policy instruments (TCMB, 2012-IV:1). Policies used in this period focused on dealing of macro financial risks without bias towards the price stability objective. Hence, additional policy tools were created to seek multiple objectives. The main aim of the new policy was to construct a framework to improve the resilience of the economy against frailties which are especially ran by external balance, credit expansion and capital flows. The course of capital flows and current account balance in Turkey show notable information on financial stability and macro financial risks (Kara, 2012: 5). For example, in period of strong global growth the higher risk appetite speeds up the capital inflows and ends with rapid credit growth. Credit growth consequently raises maturity and exchange rate mismatches on balance sheets. This leads to aggregation of risks by deforming

resource allocation. Fast credit expansion and appreciation of the local currency worsen the current account balance. The deterioration in current account and the volatility in external financial flows jeopardize the risk of a sudden stop which can be addressed as form of systemic risk. That is way are the current account balance and the capital flows in the center of the new policy framework together with traditional variables as credit. Consequently, policies implemented since the end of 2010 focused on lessening the possible adverse effects of capital flow volatility. They were aimed at soft landing and mending the external financing structure (TCMB, 2012:2).

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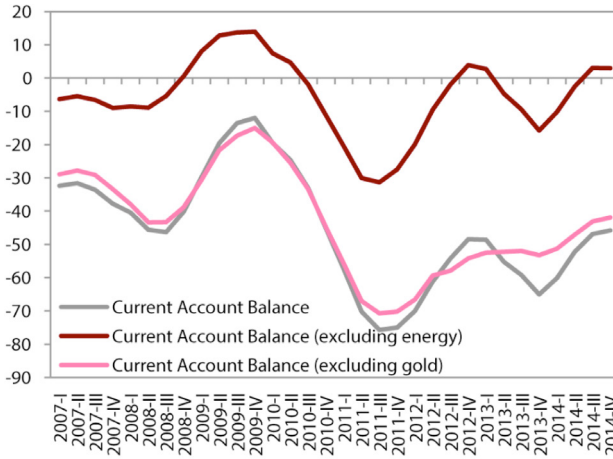
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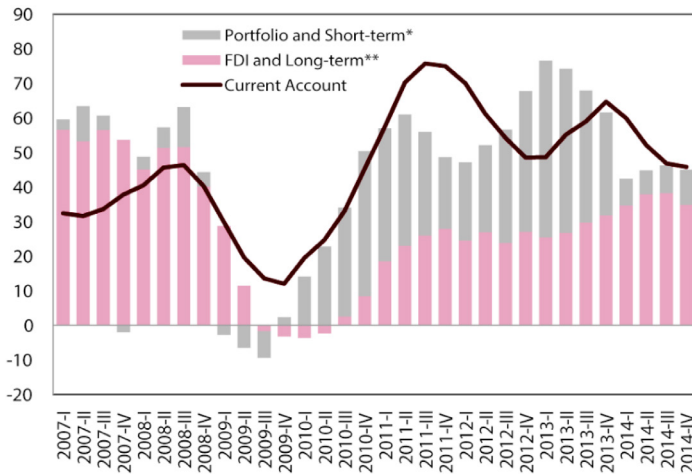
Appendix

Chart 1: Current Account Balance (Annualized, billions USD)

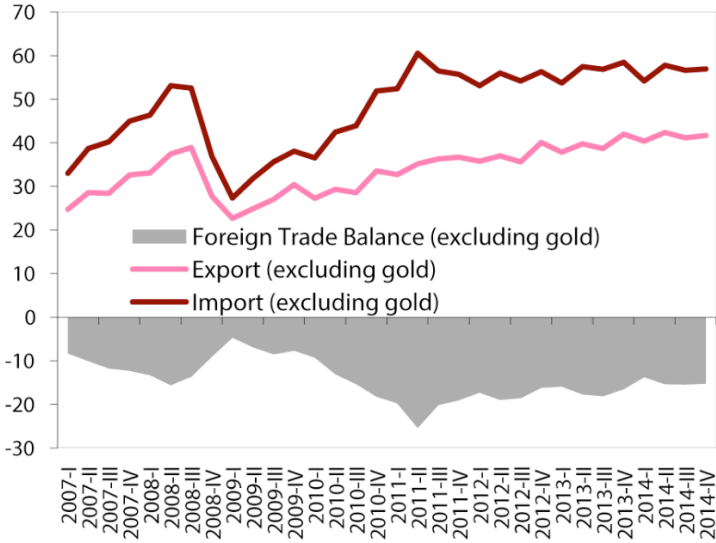


Source: CBRT (2014), *Balance of Payment Report 2014-IV*, p.7, Chart 1.

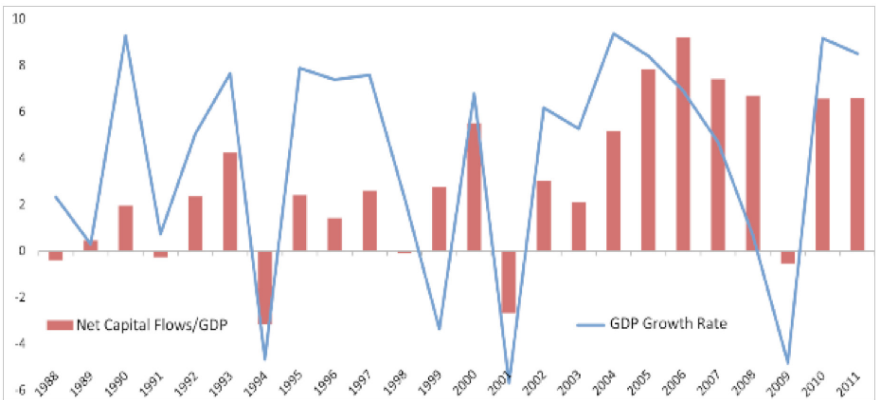
Chart 2: Financing Source of Current Account Deficit (Annualized, billion USD)



Source: CBRT (2014), *Balance of Payment Report 2014-IV*, p.23, Chart 22

Chart 3.: Foreign Trade Deficit (billion USD)

Source: CBRT (2014), *Balance of Payment Report 2014-IV*, p.7, Chart 3.

Chart 4. GDP Growth and Capital Flows

Source: Siriner (2013:38)

8

THE ROLE OF THE STATE IN LOCAL DEVELOPMENT: THE CASE OF TURKEY

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Abstract

Failure of inefficient and costly industrialization policies implemented by the state, insufficiency of seeking ways to solve economic problems by directing sources continuously and performing development activities without taking local actors into consideration caused local development concept become popular in the 1980s. This situation has turned local awareness an administrative necessity. Participative nature of citizens in the local areas, their democratic tendency, their willingness to participate in the decision making process that is related to them, efficient resource allocation purposes, creativity in the local level and rise of competitiveness considerations have all accelerated the process. Economic crises, expansion of services industry, structural unemployment problem, new types of urban social exclusion forms and decentralization have also turned local development into an obligation. Therefore, local development refers not only to economic development but also social and human development as well. It requires various actors such as local governments, investors, non-governmental organizations (NGOs), supranational and international organizations. One of these actors is the state itself. The role of the state comes fore in different points of local development process. Because the state is the manager of the economy, designer of development and growth policies, regulator of the markets, distributor of the incomes, the legislator, provider of security and protector of property. These above mentioned duties and its similar assignments bring the state to an important level in the local development. Therefore, the aim of this study is to put forward what the state needs to do to achieve local development by studying its changing role in the 21st century. An extensive literature survey has been conducted to identify the efforts of the state about development in general and local development in particular so far, what it can do in the future and why it should do have been stressed and suggestions have been made for the future.

Introduction

The general purpose of the state is to gather around economical growth and ensuring development by providing the effective distribution of the sources, achieve stabilization, and regulating the distribution of income, even the order of priorities may change. The main reason to be based upon these aims is the urge and attempt to keep closer the less developed regions to the developed regions and less developed countries and the ones are being developed to the developed countries. The improvement

that takes part in the purposes has the qualification to serve many other goal to be achieved. The fact of improvement has subgenres such as sustainable development in practice, regional development, rural development, social development, local development. Essentially the aim to be achieved for all of them is similar “intend to have local, regional, country, global or social development”.

The purpose of the local development is to have it started locally. This sense of development targets the improvement from local to upwards that which down to the top not from center, up to bottom. Because nowadays the way that everything cannot be done by the center, makes the local become obligatory. The demand for local is being increased with the participant democratic inclination that the community has, the will to participate for the decisions of first priority to them. As a matter of fact, what is wanted to be done is, to draw the activities that will improve the local to local, obtain the participation of the local by highlighting the existing thing, increase the rivalry, haul the local to global. Because in addition to the competition of the countries, the rivalry of the cities and towns and activity in global area is being spoken in this century. This situation also increases the speed of the process of localization that includes recognition and acceptance of the local identification.

And here the question is, what the role of the public is in the changing sense of progress or what it should be. No doubt, as the increasing trend of localization highlights the mentality of local development, also causes the perception of decreasing act of public. In fact, public's act hasn't decreased but only changed its form. Because of local being financially attached to the center, center is being the lawmaker, implementer and supervisor, some commissioned officers for the local is being assigned by the center, some service and possessions still belong to the public such as total common, semi common services or the public is being the larger provider makes it obligatory. Besides, such reasons as the compatibility of central mission and local mission is needed to achieve success in development with the public being a part of the general economy, (to form general economy by the things they've done and make private sector to have them done) make the public has to be by the side of the local development not out of it obligatory. That's why the goal of this study is to tell the act of public hasn't disappeared, but changed its form unlike its thought to be, to highlight what public needs to do over the case of Turkey.

Local Development

The Word “Local” is defined as “lokal” as in regional or a place which has boundaries by TDK (TDK, 2014). It is used to describe as local or a case that is being started or sustained by a population that lives in an unit (Coffrey and Polese, 1985: 86). So that means the local can be a region, province, city, town, district, valley and even

a neighborhood. Actually, political, administrative, cultural, economical and means of socially qualified power, have revealed the local and localization, in the process of development of societies (Keles, 1998: 19-20). And becoming localized causes the norm of legitimacy, procreates the need of civil service that has to be presented by the utmost closest unit to public (Guner and Yilmaz, 2006: 1). To present the services at the closest point to the public reveals the necessity of passing on the functions as planning, managing, and decision-making by the authority that related to center in substance even though in different levels to the local authorities or provincial organization (Mutlu, 2006: 32).

The term of decentralization meaning outside of centralized administration but is equipped with legal authorities by the center, to be governed by municipal corporations that are elected by local community, refers to local community that has law juristic personality and distinctive characteristic (Bilgin, 2002: 314). This is also related to the competency of the state and passing on the sources to the local administrations. Certain legislation and regulation grant self determination to local authorities to decree and to manage their own budget as a part of this process (Royan, 2009:7).

So that makes the local authority obligatory by procreating the result of all cannot be done essentially by the center contemporarily. Herein the demand for local is being increased with the participant democratic inclination that the community has, and also the will to participate for the decisions of first priority to them. Many factor such as efficiency on allocation of the sources, creativity on localization and improving the competition hasten the process by accelareting the localization (Yilmaz, Emil and Kerimoğlu, 2012: 22-24).

As to development is a term that is defined in several ways that attain context by effectiveness level of factors that effect the communal changing in economic, politic, social fields. It's stated it's turned out to be a discipline largely by the economical aspects which is being discussed since Adam Smith, and through its rising as a discipline with the Great Depression, and by the utilization as economy of development after the Second World War (Cooper, 2004: 2; Yavilioglu, 2002: 63-65).

The term growth is sometimes used synonymously with the term development. Yet, the term for economical growing and development differ from each other both in theory and practise. Economical growth is relatively an abstract term, but completely a mathematical and statistical term (Piketty, 2014: 81). Because it only refers to scalar increment such as the production that a country utilizes to broaden the productive capacity in particular periods, investment, foreign trade, income, accession, capital fitout, footing of natural resources. Yet, development refers to dynamic duration that includes positive sociocultural, economical change in a structural feature of a country and the raising of personal income (Tolunay and Akyol, 2006: 118; Yavilioglu, 63-65). That's why development requires a multidirectional pursuit which are

economical, social and humanitarian (Tolunay and Akyol, 119). Development nestles various types in itself. These are sustainable development, regional development, social development, local development (Zengin, Baskurt and Es, 2014, 99-104) and rural development.

Sustainable Development

Sustainable development has been mentioned for the first time as a term in a report named “ Limits to Growth” which has been published by Club of Rome. And it has been fitted in a conceptive frame by the Brundtland Commission Report called as Our Common Future which has been published in 1987 (Akgul, 2010: 136). Sustainable Development, that meets the needs of the present without compromising the ability of future generations to meet their own needs (Strange and Bayley, 2008: 24). In other words, It’s to find an answer to the question what to do not to compromise the ability of future generations while meeting the needs of the present (Kreller, 2000: 15). As it’s specified in the report, “Sustainable development is not a fixed state of harmony but rather a process of change” (Strange and Bayley, 30). It contains many subfactor like social equality, economic productivity and environmental responsibility as in table (SFSO, 2002: 5).

Table 1: Sustainable Development

Social Equality	Economic Productivity	Environmental Responsibility
<ul style="list-style-type: none"> • Life circumstances • Equal opportunities • Social harmony • International Collaboration • Preservation of human capital 	<ul style="list-style-type: none"> • Economic Growth • Productivity and Competition • Flexibility and stability • Production/consumption • Employment • International Trade 	<ul style="list-style-type: none"> • Consumption of Resources • Equipment and wastes • Risks • Change ratio • Natural and Cultural Outlook

Reference: (SFSO, 2002: 5).

Regional Development

Region refers a term as polysemic as development which is multidimensional, and hard to draw its lines. It’s used to name sometimes a neighbourhood, a town or a city, sometimes regions that is consisted of many counties or piece of land that is consisted of several countries, as well as the continents. That’s why the term of region can be defined in different forms depending on the approaching of the traditional, global and projection purposes (Sevinc, 2011: 39). So the Word Residence can be preferred

instead of Region (Keles, 1997: 237).

The projected purpose of regional or residential development is to remove the instability which is a result of industrialization in particular areas of a country and arrange income distribution by giving way to industrialization in undeveloped regions (Paksoy and Aydogdu, 2010: 114). While planning the development, the necessity of consideration the size of local and residential, has procreated the regional planning. Many factor has been decretive such as transferring the local information to national plans, to obtain coordination between local and center by planning between economical, social and physical studies, meeting the local needs by national plans, holding the means that effects distribution of population via local physical environment by regional administrations (Keles, 1997: 230-232).

Social Development

Social development is the development with all the means of the society. And increasing the level of income of the society is not enough. Besides, a wholistic progress is to be provided that includes social, political and cultural developments. That's why the purpose to be taken is to highlight the people oriented and smallscaled activities. So it's been seperated from the sense of national development (Zengin, Baskurt and Es, 104).

Rural Development

Making a definition for the Rural is being inconviene because of the variety of the economical, cultural, social, political, geographical content of rural areas. That's why countries define the rural area specifcly by taking into account their own administrative structures. For the compliance with the development plans, State Planning Organization (DPT) qualifies the rural area as the area other than urban areas with population of 20 thousand and more (villages, vineyards, towns, and some counties) in the study of National Rural Development Strategy. And rural development is defined as increasing the income and standarts of living by using the sustainable natural sources, protecting environmental and cultural values, considering social, cultural and economical features that differentiated (DPT, 2006: 3).

Local Development

In the beginning, many countries have the urge to manage the development by gathering sources in the center due to insufficiency of national fund dissemination of the fund to the base and emerging in time has caused sprouting the process of local

development. the problems hasn't been solved even by constantly providing source via community to undeveloped places but it also has brought out the necessity of revealing the vying structure by triggering the sources and simplifying the access to sources by the local (Sakarya, 2005: 98-99).

Local development appeared during the 1980s as a spontaneous phenomenon, left behind the backward flow of ineffective and expensive policies of reindustrialisation carried out in 1970s and became visible in a rather sudden way in the middle of the 1980s. It was the result of the conjunction of a particular economic (crisis of the traditional industries, widespread emergence of the services economy), social (persistent unemployment, new social exclusion forms in the cities) and political climate (decentralisation, crisis of the central Welfare State, European integration). Local development is intrinsically associated with a multidimensional concept of change bringing together economic, social, cultural and environmental dimensions; with innovation across and in the spaces between these dimensions. It may be seen as a method which helps improving quality of life, supporting or accelerating empowerment of ordinary people, developing or preserving local assets, overcoming market failures, strengthening cohesion, and defining and delivering grass-root development projects (European Union, 2010: 10, 34).

The local development process involves a range of strategic approaches, applications and frameworks that vary according to territorial scale and available resources. A useful way of describing the configuration of a local development process is by setting out its key components (OECD, 2008: 21). For the last twenty five years, tools and methodology have been developed, but the success of local development remains the product of a unique combination of human and material factors, which intersect in a particular place (European Union, 10). That's why the process of local development stands for the necessity of social dialog and participation so in need of cooperation of the local actors, revealing the need of various area/region-residence, encouraging the motility of local sources, exigence of advantage of competition. It also procreates the need of redesigning the city plans with the sense of local development by being distinctive, and essentially being managed by the local, necessity of guidance and presedence by public (Cetin, 2007: 156; Es, 2007: 8-9).

It's stated that local development is input-based. This definition is correct but incomplete, as it does not take into account the explicit objectives pursued by the strategy (outputs) which are crucial for the local partners, (and specifically the focus on socio-economic results and better living conditions). It also neglects the developmental dimension of the strategy, with its long term objectives and the structural change to be achieved (outcomes). Hence, local development can be characterised as a dynamic process along three main lines: inputs, outputs and outcomes (European Union, 10).

- **Inputs:** area, sense of belonging, community, bottomup, partnership, endogenous potential, proximity.
- **Outputs:** local beneficiaries, self-help, increased incomes and revenues, access to services, quality, efficiency, relocation, diversification, new methods, and increased local value.
- **Outcomes:** collective and common goods, development, strategy, regeneration, effectiveness, future, social innovation, empowerment, legitimacy, well-being, amenities, and collective intelligence.

The question is why the local development is needed. Local development is needed to contribute due to creating new job opportunities, extending present enterprises, employment (preventing immigration), progress on payments, recovery on income distribution and diminish the poverty. Furthermore, it will cause lessen the problems in local and general, spreading the tax base to the local, and decreasing the expenses for local which is done by public. It will contribute lowering public expenditure for local, loan on public funding, decreasing the necessity of denationalization, diversity of economical structure, economical growth and improvement, stability (political, economical), creating equal opportunities, improving the life standards, cultural improvement and participation. As a result, increasing the economical, social and cultural welfare for local and general is needed.

Development represents a wide term. It's certainly relevant to growth. But growth doesn't mean development by itself. Because growth may not reveal the products as meant to be such as fair income distribution, recovering the wages, increase on health and education, equality of opportunities. Yet growth is an essential factor of development. Because of that, local economical development is considered as local development in many literatures.

Local economical development covers the pursuit of elevating the order of life standards by prompting the sources of local with rationality and synergy. Distrust to traditional approach of development has a big role to emerge this search (Baykal, 2010: 35). The reason behind this failure is disregarding the local actors who are in the center of the case, having the development plans done by the center and trying to be managed by centralized administrations. To take the sectoral approach as the primary instead of regional one, intend fulfilling the big industrial projects, and standing only over financial supports and promotes have been effective in this process. However what needs to be intended is to pull down the economical activities to the local, and recover the basic condition (Cetin, 157). Local economical development instruments have a wide range as detailed on Table-2.

Table 2: The Local Economic Development Tools

<p>Tools for strict standarts factors</p> <ul style="list-style-type: none"> • Land and the provision of suitable space • Preparation of convenient infrastructure, • Qualification programs, • Tax incentives • Subsidies <p>Soft personal enviromental factors</p> <ul style="list-style-type: none"> • Improve the quality of housing and living environment • Ensuring that high enviromental quality, • Ensuring the quality of schools and other educational institutins, • Ensuring the quality of socials infrastructure, • Ensuring a high level of leisure time value (sports, eintellectual environmentand popular cultur) <p>Economic development of institutinal tools</p> <ul style="list-style-type: none"> • An economic development agency, • In purticular, the regulation of public econom-ic development • Private actors in economic development (as-sociation and facilities, programs) • Public-private partnership 	<p>Sof job-related environmental tools</p> <p>Create a favorable business enviroment</p> <p>-Indicators:</p> <ul style="list-style-type: none"> • Review of the questions, • Executive qualifications, • The effectiveness of the regulatory authority in connection with business support, • Economic competence, openness and hospitali-ty of the relevent stakeholders (eg Mayors), • Efforts around subjective well-being of poten-tial investor during the politics and government, • Organizations and busineses be related with Politics and government and have same thinking <p>Industry guidelines adaptation,</p> <p>Ensuring the effectiveness of the university (Research and technology institutes),</p> <p>Encourage the development of an innovatie environment,</p> <p>Active economic cooperation role with associa-tions and chambers,</p> <p>Create a positive image</p>
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Reference: (Stamer, 1999: 13).

Actors of Local Development

It needs multidirectional and dimensional effort to carry out the local development. The actors of local development can be aligned as follows: central administration, local administration (provincial administration, municipality, villages), non governmental organisations (NGO), international foundations and developments (World Bank), International Money fund (IMF), Organisation for Economic Co-operation and Development (OECD), European Union (EU) etc., regional development agencies, development banks, universities, investment offices, investors, and others.

To accomplish the local development, all parties has to have an active role by the means of development. This situation is stated by ILO that team work is a must to improve efficiency on local development programs and strategies, but lack of cooperation will be reducing the activity of development programs (Hizman, 2011: 59). Development requires active duty by the actors and integrating some different political factors that define the competition. This condition is given systematically by Stemar for EU as in Table-3.

Table 3: Bridging the Some Different Political Factors with Systematic Competition Determinants

	Supranational	National	Regional	Local
Meta	Competition between different models of market economy system	National development model, the national innovation system	Regional identities, strategic capacities of regional actors	Collaboration skills, Local actors, Confidence, Creative environment
Macro	International capital transactions	Macro-economic structures (Eg. Tax system, funding opportunities)	Fiscal policy, state investment capacity	Fiscal policy, the state investment capacity, attractive environment, quality of life
Meso (Midium)	EU industrial policy, technology policy of the EU, the Montreal Protocol	The promotion of new Technologies, Expoer support, Private financial institutions, Specific environmentalpolicy	Regional economic development, technology demonstration centers, research and development institutes(R&D), educational institutions, enviromental policy	Local economic development and labor market policies, educational institutions, qualified chambers on technological innovations
Micro	International companies, global commodity chain	Dispersed organization of mid and large-scale companies	SME's, Regional clusters	Local clusters/industrial districts, local supplier relationships

Reference: (Stamer, 17).

As we can see in Table-3, The harmony of the transnational, national, regional and local factors and actors, meta, macro, meso, and micro based planning, are needed to achieve local development. Otherwise, thinking, planning and executing in local in single hand is not enough.

However, local development is not a case to overcome only by private sector or locally qualified organizations. That's why it shouldn't be handed over only to private sector, local administrations or non-governmental organizations. As being promoter, incentive, and sometimes investor directly by itself, public should take part in the local development. Liou has stated the role of the state under five title. And the duties that shall not be forgetton during the local development process, are public being the administrator of the economy, creator of growth and development programs, implementer and inspector, compensator for the income disturbution between social groups and regions, lawmaker and corrective action at breakdown on the markets, defender of title (Hizman, 48).

The utmost important actor olocal development is the local itself, meaning local ad-

ministrations, local investors and local people. Role of the local actors should be motivating the development effort, helping the sources and abilities to be ensured in the strategic process (OECD, 21). Importance of local administrations is to be close to local factors, and knowing the local sources and needs well enough. Also, being active on local and personal attempts has an important role here (Bilgin, 316).

To include the opinions, energies and efforts of the local people to the process increase the importance of actors. To know the local affluence, and potentials, to define the needs and opportunities based on local, and to obtain the participation of the local people to the process of improving strategies makes it easier to have every single local development prepared pursuant to said place, also facilitates the important step of feedback on local development, and also contributes providing a stage for chance by using local framework. Many instruments and fons are gathering together in this forum for maximum efficiency. To create the stage for an opportunity by providing a better coordination for the political conduct has the advantage against many problems that caused by unemployment, poverty and social exclusion (OECD, 21).

By local administrations who takes part in local development, non-governmental organizations, enterprices, development agencies, local employment offices, universities, local politicians, that come together for a particular purpose gives a chance to get a way to work in coordination. The success of the local is relavent to be coordinated with center and compliance of the development plans. Because local development entails the most effective use of defining the binding policiesthat arouse the urban economy, and creating new job oppurtunities. So that conceives the consideration of including organisations such as EU, IMF, WB, OECD, ILO. For example, in the last periods, EU countries elaborate the principle of locality in development strategies. The prime goals of EU to provide local development are: (Tutar and Demiral, 2007: 68); provide background for small business administrations, improve R&D activities for small business that is established or will be established. However local employment should be increased by the coordination between organisations, improving the tourism sources, presentation and promotion of local based products.

EU encourages the development agencies to achieve said goals, by paying attention to participation of all actors in local and regional development, and supports by the various structural funds in its system. These structural forms are; *European Regional Development Fund (ERDF)*, *European Social Fund (ESF)*, *European Agricultural Guidance and Guarantee Fund (EAGGF)*, *Financial Instrument For Fisheries Guidance (Fifg)*. In a similar vein, OECD rustles forentrepreneurship, local development agencies, directly with foreign investments, increasing the quality of work force, ass-estment of local development programs, and define and improve local based capacity via the program Local Economic Employment Development (LEED) (Hizman, 60).

WB states the reinforcement of local administration enhances the power of state.

Localization will create the pressure for the needs to be met of the local while offering service, empower the authorization of responsibility, support economical development for local, and also will increase the effectiveness of general economy (Bilgin, 317). Because of all, by paving the way for an active partnership for transnational and national, regional, local organisations, act local, think global, and so that to be implemented.

The Role of Public in Local Development

Economists had been concerned with the causes and consequences of development since Adam Smith (Cooper, 2). In these days, economists and social scientists question the role of the state in a World that technology rapidly improves and economy of the countries become entegrated (Tanzi, 1997: 23-24). Private sector has to carry more load especially in the fields such as retirement, health, education, substructure which are traditionally carried out by public organisations, and the state has to perform more important and regulatory roles in Globalized World. In fact in many countries; Failure of the public has been caused by many reasons from the difference of self interest between ruling and the ruled, mistakes of decision makers, inadequacy of controlling the political instruments or to the effects of previous decisions. But it may not be right to say a minimalist state is better than a grand state (Tabellini, 2004: 1).

Public is the key to the success in development on the reliable, substantial policies to follow. Procurement of public instruments is to be accountable on eliminating the irregularity of failures, opportunity and income inequality, stabilize the excessive economic fluctuation, create a stable macro economical environment (Tabellini, 1). As a sample, stability is a public instrument that can not be supplied by economic units or local administrations as matters. Macro stability has to be created to ensure growth and increase the investments, investors to make effective decisions, the effective operation of value mechanism. Liability of direct investment in developing countries, coordination of production decisions can also be added. Market has an important role by being so poor or unstable to be unable to determine by itself for investment and product in very important fields (Stern, 1997: 144-150).

State has a pivotal role, which should be undertaken, in the fields regarding the protection of the individuals from social isolation or essential destitutions that hinder to be in a society (being illiterate, health problems, famine, unemployment). It is not possible to solve these problems with only market mechanism or society, or the household or local based effective alternative mechanisms as matters. These presumptions needs interventions by state especially regarding education, health, alimentation and living. In brief, state is in charge of providing certain living standarts,

undertake responsibilities for the next generations, providing secure and livable environment (Stern, 149).

What should not be forgotten regarding local development is long run resulted decisions is being taken by public. Samples can be given as follows, size of public service, public or private enterprises, wage levels of public, pension rights, sustainability of public activities, encouragements that given to the particular groups or sectors, subventions (Tanzi, 6). On the other hand, public is in charge of substructure which is essential for development. Investments for substructure spread over a wide area of roads, dams, railroads, ports, small dams, water main and reservoir, sewer, building, land, landlines and centrals, transfusion and distribution of energy. These investments require mighty capital, feedback of them covers a longrun, and their social benefit is more than personal benefit. All of these increase the liability of the state contrary to the belief in these days.

There are duties of public due to local development doesn't only cover the economical growth. These duties cannot be succeeded effectively by the local. additional duties of the state regarding local development emerge at this point (Darici, 220); reveal the potential of the local, creating a common interest by gathering the local actors, bringing in the common needs of local to economy by participating budgets. State is also responsible of decreasing the instability (inequal income, poverty, regional instability), technical and financial support during development process, advance the living standarts, create accurate data, and globalization of the local.

As a result of local development, wage and pays will increase, tax base will expand, new job oppurtunities will be created, capacity of present work fields will be increased, unemployment to be decreased, training of workers and quality of job to be increased, the required living habitat to be formed, social problems to be decreased, and people will be seizing the places they live. This situation will prevent the immigration and urban sprawl, so positive effects will come to life in financial, economical, social, cultural ways.

Role of the Public in Local Development in Turkey

There are many problems generally in the regions in Turkey, particularly in local, meaning economical, social, environmental problems in the cities. Many methods have been tried to overcome these problems almost for a century. The ways to be taken during the development has undergone a change and transformed, and the tremendous act is always taken by the public. Here are some plans and implementations from 1923 till 2015:

First Izmir EconomyCongress had been organized in 1923, legislation of Tesvik-i

Sanayi had been renovated in 1927 (Tevsik-i Sanayi Muvakkati 1913 – had been made to have a breakthrough in industrialization), First five year Industrial Plan that covers 1933-1938 had been laid out and implemented. Second five year Industrial Plan that covers 1939-1944 had been laid out but couldn't be implemented due to war. In 1954, "legislation for encouraging the foreign fund" had been made, First Five year Development Plan that covers 1963-1967 had been laid out. In 1968, Prior Districts in Development (KÖY) policy has initiated. Five year development plan has been laid out for eight times till the eighth plan, but five year plans have been given up at the ninth (2007-2013) and tenth (2014-2018) plans. Which shows that in Turkey, there are studies in effect for a long time to support local and region, and also sectors even in different levels (Gokcen, 1987: 365; Karabicak, 2013: 265-266).

There are many context within this context such as Regional Development Plans (RDP), KÖY implementations, organized industry areas (OIA), Rural Development Projects (RDP), Organisation based Social Responsibility Project (OSRP), Regional Development Agencies (RDA) also including investment support offices, industrial parks/ organized industrial areas, technoparks/techtowns, and many other implementations. Despite all the implementation and development plans, the projected regional and local development couldn't be obtained well balanced (Keskin and Sungur, 2010: 282; Tutar and Demiral, 80). The targets and instruments regarding regional policies on Development Plan are as in Table-4.

Table 4: Regional Policies and Tools in the Development Plan

Five-Year Development Plan (FYDP)		
	Goals	Tools
1.FYDP	Balanced urbanization, interregional balance (public services and the distribution of income), Investment activity	Financial incentives, Alternative measures investments to the undeveloped regions
2.FYDP	Balanced development between regions, balanced distribution between regions in terms of social equity, Investment activity	Tax reductions, financial incentives for private sector investment, pilot projects, Keban
3.FYDP	Balanced development between regions, balanced distribution between regions in terms of social equity, Investment activity	Financial incentives, industrialization programs for underdeveloped regions, inventory studies, provincial planning, sectoral planning, package projects, priority provinces for development.

4.FYP	Development of the least developed provinces, sectoral and regional interdependence, spatial organization	Interst rates for investment, various financial aid, Package projects, provincial and regional level investment, Cukurova urban developed Project, Southern Anatolia Project (GAP) / SPA-japan International Development Agency (JICA)
5.FYDP	Balanced regional development, while considering the social equality	Preparation of regional development programs fort he identification of potential sources, The selections of investments in accordance with the prepared programs, infrastructure development for industrialization Project in priority regions and sectors, financial assistance for investment in priority provinces in development.
6.FYDP	Balanced development in regions, supporting the district villages to prevent depopulations.	Transfer of financial resources fort he village, and the creation of a special funds and incentives for his purpose,
7.FYDP	Immigration and balanced development rationalization, adressing the issue of separete category fort he metropolitan area, efforts for housing policy development, regional differences	Continue the PRD (KÖY) policy, emergency assistance program for Eastern and Southern Anatolia, GAP, legislation, housing projects, supporting of the Small and Medium Businesses at the in priority provinces in Development (SME)'s
8.FYDP	Improvement of competitivenes, entrepreneurship and lokal resources mobilizations, regional differences	SME support, The EU funds, the first comprehensive regional plans, human capital, Yeşilirmak Basin development Project, the regional operational programs
In Ninth and Tenth Development Plans (DP)		
9.DP	Enabling the Regional development policies, Local developments based on local dynmics and internal potential, increasing institutional capacity at the local level, ensuring development in rural areas	Ensuring the plans compliance, the principles of property to be based on, new regionalism, spatial models of innovation, development agencies, attraction centers, the sectoral organize industrial zone must realize at the appropriate zone, clustering.
10.DP	Reducing regional disparities, the potential of all regions must evaluate and improve, contributing to the national growth and development must increase.	Implementation of Ragonal Development National Strategy (bgus), developments of SME's and micro enterprises, strengthening the human and social capital, the creations of attraction centers, promoting the regional airline operations, connections between ports to central and eastern anatolia and GAP region must be strengthened, clustering, goods and sevices produced by the city must be branding.

Reference: (Keskin and Sungur, 2010: 287-289; DPT, 2008: 14-15; T.C. Kalkınma Bakanhğı, 2014: 141-144).

As seen in Table-4, Turkey has defined many policies and call out instruments to provide national, regional and local based development. It's not possible to say the goals has been achieved in the first nine item. It also shows many goals that defined hasn't been achieved yet due to existance of the similar items in the tenth development plan as in the first one. Even though the existence of many investment offices, organization and foundation as KÖY, OIA, RDP, OSRP, RDP, many plans, projects, strategies has been laid out, and why the goal still cannot be achieved is the rising question.

The main problem on the sense of development in Turkey may be seeking solution for development without considering the problems in rural regions. So this sets back creating solutions for permanent problems such as urban sprawl, unemployment and poverty. Problems in rural regions is taken into account on the base of agriculture and regional development, and at the same time, many fields has been ignored such as employment, education, health, estates, social security, urbanization, energy, tourism, environment, trade, industry. Yet a multidimensional strategywith considering cross-compliance has to be implemented besides agricultural and regional development (Tarım ve Köy İşleri Bakanlığı, 2011: 29).

In the last development plans in Turkey, the goal is to reveal the potential and abilities of the region or the place, encouraging innovation focused structure, interior growth and environment, living standarts, labour, and to attract investment by the qualities associated to the regioninstead of exterior involvementswithin the scope of seeking regional development (DDK, 2014: 767). So that is constructive progress to overcome the problems that is faced in local. But still there are many problems and are going to be.

If the main reason of the problem is examined, municipal government is the ground of the local administrations in Turkey. The duties of the municipal governments that host two outta three of the total population are defined as to make others to serve or render service to improve the economy and trade in its limits according to 5393 Municipal Governments Legislation that has been approved in 2005. Therefore municipal governments are commisioned with increasing the welfare, and to make it sustainable by local development. On the other hand, the most valuable income is by the taxes which is provided by central administration, and 80-85% of it is expended on prevalent disburse. Besides the proportion of local administrations' revenue is 13% of the total public revenue. This rate is almost the half of the OECD's average. This procreates the finding of lowness of financial autonomy of local administrations (Gercek, 2010: 20-21). So the municipal government has a significant financing challenge. It doesn't seem possible to provide required participation to the local development while they are fighting against this problem. So the problem has to be solved. Tax benefit which is being taken from central administrations has to be increased or utilities shall be provided to originate income (Es, 8; Hizman, 91).

Tax for motor vehicles and to purchase and sell may also be handed over to local administrations as well as estate and environment taxes. The excuse is municipal governments are striving for exhaust gas and noise contamination, besides road construction, road repair, traffic signs, maintenance and repairment of boards in the cities. It also may create opportunities for a new revenue. Such taxes as housing in Italy, owning dog in Germany, or residency in Japan can be arranged by law. Re-arrangements can be made by considering the measures of exterior benefit which will be caused by service that revenue can be used for, and instability between the regions, lowness of native revenue regarding the donation and aids (Cetinkaya, 2012: 68-74). Credits and support that is provided by public to local administrations can be increased. Province bank can be used effectively for improving urban infransructure projects on technical and financial basis (Yildirim, 2010: 113). Besides the way can be paved to obtain sources from domestic or foreign organisations of private credit fund with share market of municipaities (Es, 8; Hizman, 91).

The main reason underlying the failure of local development in Turkey is unobtainable sufficient financial support, insufficient technical and administrative support, trading and improving is politically being interrupted by decomposition of local administration by stepping in of too many diplomacies. That's why, what needs to be done is providing necessity financial, governmental, technical support without being interrupted by political concerns instead of making a new plan.

Promoting relations between local administrations and organisations such as (KOSGEB), (İGEME) and (TÜBİTAK) to benefit from consultancy and training services, finance that is given by the organizations affiliated to the center with the coverage of technical support (Carikci, 118). By providing information regarding the support of publicto Small and Medium Sized Enterprizes (SMSE), and accessing to these supports with objective criteria. And also with preparation asupport and encouragement guidebook for the municipalities, and it may be kept up to date. Cooperation with universities can be granted by public support. Support of the state can be increased for a healthy OIA structure.

The coverage of micro credit can give way to a little contibution by being increased Turkey wide with state support (it is appllied for the first time in Diyarbakir, in 2003, WB has loaned 500 million dollar, and with 130 million dollar the supplementary budget of prime ministry). It should be supported financially, administrative, and technicall with taking adopted approaches of WB for local development into account one by one. Investments should be made to strategical substructure stage, by recovering the work and investment fields. Investments should be made for substructures for business World besides structure, building, site, and provide incentives for local business growth, new embarkations should be encouraged. Domestic investment should be encouraged, sectorel development to be provided, regional goals has

to be defined, assignments has to be planned till next generation strategies will be developed (Carkci, 62, 264).

One of the things to be succeeded is to provide branding the local for providing local based economical development, and to transform it to social and humane development. It's also taken place in the last development plans. There are cities and towns that has taken significant steps as Gaziantep, Pendik, Ordu (tourism with association of plenty oxygen) and Mardin (historicity) (Carkci, 19). Creating branding cities is not an assignment to overcome only by cities but also commercials, fairs and congress in branding to be cities, exhibitions and many other similar activities by public should be included.

Conclusion

The harmony of the transnational, national, regional and local factors and actors, meta, macro, meso, and micro based planning, are needed to achieve local development. Among these actors, public has important share because of its concenetaion, lawmaking and financial power. Because when local development is mentioned which is a term that contains many factors such as education (training), health, transportation, substructure, energy, security. That makes the public irrevocable for local development. Because public is the one to function to provide total and semi public goods, dissipate the market failure, create stability, equilize the income distribution. Besides the decisions that has longrun results are being made by public. And all of these duties burden the public with a central role. That's why, the duties other than the basic duties of the state which is defined as subdivision of local development are relavent to what can be done and what needs to be done for providing local development.

Instability of income disturbtion, high rate of unemployment, unsolved housing issue, stending educational, health, substructural, and security issues, shows that there are still essential problem seven though ten development plan has been laid out. Yet, growth of population in rurals, in the contrary lowness of growth is another issue. The problems that cannot be solved by the center postpones achieving success. Because of that, despite increasing tax and budget, and having the same problems essentially, necessitate the inquisition and renovation of the public itself.

If we are talking about a city, town or village in the term of local development, first of all we need to highlight the neccesity of a parallel source of income to have the assigned or elected person to officiate the duties. Tax for motor vehicles and to purchase and sell may also be handed over to local administrations. Such taxes as housing or residency can be tried out. Credits and support that is provided by public to local administrations can be increased. The way can be paved to obtain sources

from domestic or foreign organisations of private credit fund with share market of municipalities. It's not possible to achieve localbased success unless creating sufficient financial source. Shouldn't act politically and should provide institutionalisation after transition of the sources or giving way to create sources on local basis, both on passing on sources and services.

Many important duties have been assigned to public in local development process, technical supply, staff, information sharing, gathering partners together other than financing. But what needs to be done to improve the local and country has to be done without involving politics.

Another thing that should be done by public is to provide technical, financial, direct investment support to attract not only investors nationwide but also international investors with various encouragement policies. While attracting the investors, it also should focus on the advantages that it will bring not only implementation of expenditure of encouragements. More share from global market should try to be taken by including employment, contribution margin of social security, decrease of social aid by public, tax revenue and employment opportunity by subsidiary industry, social peace, tax over income and property of employees. Many ways can be taken such as recovering work and investment environment, investments should be made for strategical substructures, investments for structure, buildingfor business world, also temporary investments for substructures should be done, and provide incentives for local business growth, new embarkations should be encouraged.

It is necessary for the public to make investments where local is unlikely to success. Because sometimes it may not be possible to develop by itself. In such cases, it will be unfair to the people of the local. Besides it causes income distribution to be more unfair. Because of this with local development or a development way from bottom to top is to be chosen, so public doesn't relieve its all responsibilities rather becomes the key component to solve the problem.

The utmost important duty that public own in local development is to not to compromise the ability of future generations, to be guiding while adopting the sense of human and environment oriented sustainable local development that will not take their chance away, and to be constructive and decisive.

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9

ECOMUSEUMS AND SUSTAINABLE LOCAL DEVELOPMENT: A CASE STUDY OF BOĞATEPE VILLAGE, TURKEY.

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Abstract

Local development is an important concept but implementation is often problematic. However, the principles of sustainable local development are now widely implemented across the world as an effective means of meeting the demands for small scale economic growth while at the same time protecting cultural and natural assets. The ecomuseum is a significant and enduring practice that emerged from new museology in the 1970s. Ecomuseums are focused on a specific place or 'territory' and on the relationship between the population and their environment, culture and local history. Ecomuseums have been utilised as a major means of promoting sustainable development in many rural areas of the world by conserving natural, historical and socio-cultural resources of a locality whilst recognising a place's potential to provide low-level tourism and economic-social opportunities. This article describes ecomuseum and social-economic development in Boğatepe village, in the province of Kars in Turkey. Interviews were the key research tool and were undertaken with volunteers and residents of the village; the findings are discussed and proposals developed for future studies and ecomuseum development.

Introduction

Immigration to urban centers has been a feature of Turkish life since the 1950s and is on-going. The rates of migration from villages to urban areas within Turkey display the importance of regional development very clearly. According to TÜİK data, the country's population was 13.648.000 in 1927, with 76% of people living in villages and 24% in urban areas. According to the Turkish Statistical Institute, in 2013, Turkey's population had reached 76.667.864, and close to 91.3% of this population now live in urban areas. One of the most important outcomes of this process is that rural areas, which have a rich cultural heritage, have suffered population decline. It is also evident that the population in rural areas is mostly elderly people who fall outside the employment and production process.

Emigration from the Turkish countryside, and ageing rural communities, are a threat

to rural tangible and intangible heritage; cultural traditions are beginning to disintegrate, posing a growing threat for their transmission to future generations. The principles of sustainable local development are now widely implemented across the world as a means of meeting the demands for small scale economic growth while at the same time protecting cultural and natural assets. One of the tools of local development, which will ensure that those living in rural areas are able to earn an income while at the same time continue their existing lifestyles by protecting their culture and environment, is sustainable tourism.

Ecomuseums are one of the means by which local sustainable development could be enabled to prevent emigration and the preservation of natural-cultural heritage. Ecomuseums provide a valuable means of conserving natural, historical and socio-cultural resources of a locality, yet also recognising a place's potential to provide low-level tourism and economic opportunities. Ecomuseums have been developed widely in continental Europe, South America and Asia, and many have been created not only to conserve heritage but also to provide facilities for tourists and local visitors (Davis 2011). One major feature of ecomuseum theory and practice, and of most small-scale localised projects, is that they are created and managed by local communities, frequently with the support of local governmental authorities. This approach demands that local people identify their heritage, prioritise action, decide which interpretive methods to implement and develop strategies for sustainable, long-term action. This involvement of local people links to Yurtseven's view that all communities are entitled to protect, develop and enhance their cultural identities in order to relay them to future generations (Yurtseven2007:31).

This article explores local community involvement in the ecomuseum of Boğatepe village based on interview and direct observation carried out during several years of participant action research by the author.

Method

Firstly, a literature study was conducted about the main ecomuseum concepts and basic data about Boğatepe village, its history, culture and economy was obtained from secondary sources. An in-depth interview was carried out with Mr. İlhan Koculu (Chairman of Boğatepe Environment and Life Association-BELA) who has been coordinating all studies in Boğatepe since the formation of the BELA, in January 2015. An additional 20 unstructured interviews were carried out with local people in Boğatepe who support the association in 2014. This data is utilised to explore the relationship between inhabitants, local development and the ecomuseum in Boğatepe.

Ecomuseum

The ecomuseum is a significant and enduring practice that emerged from new museology in the 1970s. New museology has now become a fundamental paradigm for museums worldwide, with a new focus on their ability to provide essential support to society (Maggi 2009). Ecomuseum practice essentially enables the concept of the ‘museum as building’ to be replaced by the idea of ‘museum as place’; society, nature, culture and history communicate with one another in a holistic approach to conservation and interpretation that allows the distinctive nature and roots of a locality to be valued and understood.

Ecomuseology developed under the leadership of French experts George Henri Rivière and Hugues de Varine in the 1970s and 1980s. Rivière and Varine played a central role in the development of the conceptual framework, creating a museum concept that focused on locality, local identities, cultures, traditions, environment and society. Varine (1985) also promoted the concept of the ecomuseum as an important tool in the service of social development, recognising clear links to the practices of sustainable development and sustainable tourism.

The ecomuseum is not only a reflection of the natural surroundings, but also refers to the cultural and historical heritage of a locality; it is a living mirror of the social and cultural environment (Davis 2011, 5). According to Rivière (1980), ecomuseums are focused on a specific region and on the relationship of the population living there with their environment, the locality’s history and current ways of life. Davis (2007, 199) defined it as; ‘[a] community-driven museum or heritage project that aids sustainable development’.

According to Maggi (2001) ecomuseums can be classified into two categories: *alive* or *living* ecomuseums demonstrate an existing population with distinct natural and cultural features that use on-site interpretation at multiple localities; *adapted* ecomuseums reflect the historical-cultural-social heritage of a locality using objects, often based in a single building. There are several diagrammatic models of ecomuseums; for example Corsane (2005) considers the ecomuseum nested within a community, which is in turn placed within a specific environment while Davis’s (2011, 90) ‘necklace’ model regards the ecomuseum as a thread which connects the various heritage assets of the ecomuseum with its local community and heritage ‘activists’. It must be stressed that each ecomuseum is different, depending on the natural, cultural and historical characteristics of the region. Comparing ecomuseums is difficult as each one is situated within its own unique environmental and cultural contexts. The flexible philosophy of the ecomuseum has meant that it has become increasingly popular as a means of heritage conservation and interpretation; and as a tool for regeneration of rural areas by promoting cultural tourism (Murtas and Davis 2009, 151).

The “Ecomuseum” is a multifunctional structure which contains both a territorial museum aimed at promoting the natural and historical-cultural local aspects and a visitor centre equipped with spaces dedicated to interpretation, education and research, able to sensitize the public to the knowledge and the respect of the environmental resources. Ecomuseum ideals have been implemented to aid community development in many countries. For instance in China, ecomuseums have been utilised as a major means of promoting sustainable development in rural areas, usually with a stated aim to aid ethnic minority communities (Davis 2007) aided by the governmental support for cultural heritage development expressed in China’s ‘11th Five Year Plan of Development 2006 - 2010’ (Rong 2006).

Depending on the time-scale adopted (short-term or long-term), there are two ways of seeing the ecomuseum as an aid to economic development. The ecomuseum as a destination attracts tourists to a region. More than 400 ecomuseums exist around the world, the majority being in Europe (Borrelli and Davis 2012, 34). The activities and local products developed in the ecomuseum territory provide financial benefits for local people. Although place is a complex notion in ecomuseum projects, it has multiple integrated components (physical, environmental, economic, social, cultural, and political), that emphasize the role of local actors in increasing the values of territorial capital (Borrelli and Davis 2012, 42).

Boğatepe Village and Local Development

Boğatepe village is 45 km. from the city of Kars, East Anatolia, at 2,300 meters altitude. In the early years of the Turkish Republic, the village pioneered the development of cheese making in the region. Consequently Kars is known as a very popular destination in Turkey, especially for its local cheeses. Kars was taken by Russia after the Ottoman-Russia war in 1878 and between 1878 and 1918 it was under Russian control. However, its suitable geographic agricultural and climate were used in cheese production by Russian and other entrepreneurs who were from countries friendly with Russia. When the region was re-incorporated into Turkey there was a burst of agricultural activity in Anatolia and the Caucasus.

From 1921 to 1931, totally 106 tons of gruyere cheeses were produced in the village (Alperden Kafkaslara, 2014, 83) and there were 5 dairies in Boğatepe village during these years. However, there was only one dairy in 2000 but today (2014) there are five dairies, three of which produce kasseri cheese and two of them Gruyere. They produce Gruyere and kasseri cheese using traditional methods, so safeguarding an important aspect of local intangible heritage. Most of the local milk producers give their milk to these dairies, with most cheese being sold in Istanbul and Kars, with the assistance of the Boğatepe Environment and Life Association (İlhan Koculu, in-

terview, January 2015).

The ‘Boğatepe Environment and Life Association’ (BELA), was founded in 2004, with seventy per cent of them being women. Protecting the local plants, promoting organic farming in the region, and training farmers for this purpose by executing vocational courses for women have been the priority. Other goals, which relate to discovering the intangible cultural heritage of the region, documenting and safeguarding it, providing health education to the local villagers, and increasing the quality of life in the region have been defined among the objectives and activities of the Association. In addition, the Association aims to provide additional income to the local villagers by developing village culture-based rural tourism and popularizing it in the region. This idea began to become reality with the foundation of this Association and the participation of the village people.

First studies towards revitalising the village started in 2000, particularly to prevent emigration and to encourage local activities that generate income. The main objective of the studies, under the leadership of volunteers, has been to identify and embrace the local-regional culture and its natural wealth. Prior to its formal establishment, the ‘Boğatepe Environment and Life Association executed a project developed with the support of the United Nations Development Program (UNDP) for the reproduction and dissemination of the seeds of local plant species.

BELA also carried out a UNDP-Small Investments Fund (SIF) project for the preservation of the local flora, the creation of environmental awareness, the compilation of local ethno-botanical information, and compiling an inventory of the usage of medicinal and aromatic plants. This SIF project - known as The “Boğatepe Village Life with Plants and Sustainability” project was realized with the support of the Small Investments Fund established by UNDP and Baku-Tbilisi-Ceyhan (BTC) Pipeline Company (<http://www.ht.undp.org>) and provided additional income for women. This project was aimed to protect and develop the biodiversity in the region, ensure ecologic and economic sustainability and create a permanent environment-friendly consciousness among the project’s target groups. Ten villages in and around Boğatepe were selected for the project to identify the wealth of the region’s flora through botanical and ethno-botanical work. Edible and medicinal herbs were identified and training by experts was provided for the female villagers about collecting, growing, drying and proper usage of these plants. A workplace where women work was established through the project in the village in 2004.

Another UNDP project, to maximize the fertility of local agriculture and aid product development was executed during 2009-2010 (UNDP and Ministry of Culture and Tourism 2012, 29). “Plant Life Gardens” have been established in the context of the project and botanic studies were conducted in which 58 plant species new to the area were identified. Eastern Anatolia’s first medical aromatic gardens were thus

established. The plant identification process is still continuing. Moreover, several training days were realized – with excellent participation from local people - on the importance of biodiversity, ecology-economy relations, the plants that constitute the flora and their production (<http://www.ht.undp.org>).

Another new implementation was to purchase and share the use of agricultural equipment in the ten local villages. This equipment was supplied by project funds and they have been used common by all the villages for several years. Productivity in agriculture has been increased 30% and the villagers have begun to work collectively (IlhanKoculu, interview, January 2015).

Seminars and hands-on training were given in order to raise consciousness about the characteristics of farm and domestic animal breeds (United Nations Environment Program (UNEP) and Ministry of Culture and Tourism 2012, 29). The farming of local cattle breeds such as “zavot”, “çıldırkarası” that are native to the region and its environmental conditions, were encouraged.

Cheese Museum and Ecomuseum Zavot

Zavot is the old name of Boğatepe village and also a variety of local cow in that region. The team became aware of the existence of ecomuseology, noting ecomuseums that had implemented similar projects elsewhere. As the volunteers and Association members learned that the activities they have been involved in meet the principles of ecomuseums, a decision was made to adopt the term and use ecomuseological approaches. It was felt that Bogatepe could be close to Maggi's (date) definition of the *alive* ecomuseum – one that links an existing population with distinct natural and cultural features.

The history of production of cheese in Kars is closely related to fact that the region was taken over by Russia as a result of the Russo-Turkish War of 1877-1878 (Alplerden-Kafkaslara 2014, 45). In that period Swiss cheesemakers came to Kars setting up dairy farms. In the early 1920's the residents of the villages of Küçük and BüyükZavot set up two cooperatives each and began making gruyere at the dairy farms that had been set up in the period of Russian rule (AlplerdenKafkaslara 2014, 159). A derelict building on a dairy farm was converted into a cheese factory by a Swiss businessman in late 1880; this opened as a cheese museum in September 2010. With support from United Nations Development Programme, the dairy farm was brought back to life as a cheese museum, the first example of its kind in Turkey.

This cheese museum is a very important example for thematic museums in Turkey. Six stations -three dairy farms and three agricultural workshops -interpret life in the village from the past to the present, explaining its culture and its production pro-

cesses. Local products have been promoted by encouraging food culture authors to visit the village. The Cheese museum (open May – October) has three sections; local cheese history of village is explained in the first; the second explains the techniques used in making local cheeses, and the third section is a new unit where local people sell local delicacies, including cheese, herbs and other consumables.

Ecomuseum Zavot - one of the first ecomuseum examples in Turkey - was generated with its focus on cheese and the cheese museum in Boğatepe village. Ecomuseum creation was a decision taken by BELA and residents after the cheese museum opened in 2012. However, the Ecomuseum is also a place for many other studies and activities in the village and its surroundings.

The Cheese museum and the ecomuseum are major attractions that will encourage tourist demand.

Tourism-related projects have been carried out with the TAMADI Association of France since 2008, and are still on-going. TAMADI is a nongovernmental organization that helps to develop rural tourism in France and Belgium (<http://www.tamadi.org/>). International relationships were developed during these projects; these new networks brought new requirements including foreign language training, hospitality training for guests and visitor facilities created at the cheese factories. The TAMADI and BELA associations organize all tourism plans, tours and with the tourism profits being shared with local residents.

The first small tourist group from Turkey was hosted in the village during the Christmas holidays in 2007. Domestic tourist groups continued to come to the village in 2008. The first foreign tourist party came from France - organized by TAMADI Association - in 2009. Further International tourist visit and tour plans have been organized by TAMADI and local associations since 2009. The total number of tourists visiting the village was just 300 in 2008; this increased to 3000 in 2013 (İlhan Koçulu, interview January 2015).

Package tours lasting seven or ten days start from Istanbul with a railway journey to Kars and continue to Boğatepe and other nearby villages before returning to Kars, where they visit historical and archaeological sites. Some local and independent tourist groups visit the Sarıkamış region for skiing during the winter months and then visit the villages as part of their holiday. Additionally some training programs and summer camps relating to “nature and natural life”, “agriculture and agricultural methods in the countryside” and “cheese and cheese making” have been organized for school groups since 2011 (İlhan Koculu, interview, January 2015).

All tourists stay in villagers’ homes and eat breakfast and dinner with them. Tourists usually spend time with villagers in common activities. Hence tourism is not only an important income source for residents but it is also a social tool. Tourism has led

to social and economic developments too, with the households of additional homes (İlhanKoculu, interview, January 2015). Some eleven households have immigrated to the village from Istanbul and four of them are young families.

Conclusion

Local Sustainable Development is an innovative approach to local and regional development of peripheral areas that places the emphasis first and foremost on the needs, rights and unique characteristics of local communities and their environments. Ecomuseums, as a functional model and project of new museology contribute to economic and social needs of local communities.

Boğatepe village is a good example of an ecomuseum related to local development. Products based on agriculture and animal husbandry has been the main assets of the village for centuries. Projects to develop the local economy and social life in village have been achieved by volunteers and associations to stimulate rural life and stop – and reverse - immigration to urban centres. The Cheese museum and the ecomuseum that are valuable brands, enable the village to engage with tourism. Consequently the village has been protected from any negative impacts of tourism by using sustainable methods and a collective approach.

This study is limited Boğatepe village and its experiences. It is impossible to project these findings other rural parts of Turkey but this research shows that is possible to promote local sustainable development of rural areas using ecomuseum approaches.

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10

HEALTH PROBLEMS OF IMMIGRANT WOMEN IN THE CONTEXT OF GENDER

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Abstract

The feminisation of migration as defining the number of women at international labour migration has been increasing in the recent years. It is common that women compared to men work at lower status occupations with not parallel to their education and profession. In the immigrated countries, the women migrants mostly employ in works that are appropriate to their gender roles such as housework, care of child or patient. By the defining that being healthier in both emigrated and immigrated community, the healthy migrant hypothesis is also reigning for women. However the health of migrants rapidly gets worse due to both poor living and working conditions. For women, the gender issues add to that burden including the anxiety related to children left behind, sexual harassment, violence etc. As a result of all problems, the women's mental health is rapidly worsening in especially at care works. On the other hand, health care for immigrants is very limited.

Introduction

This study is hereby to make propositions regarding the state of health of the migrant workers by the perspective of gender. And it also contains several verity by the hearings from a limited number of immigrant women who work in housekeeping sector. But to take this result one step ahead for the possibilities that may arise as the various effects on women besides maltreatment to women which has many samples in a large manner, low fee and negotary working conditions.

One of these various effects is about immigrant women's the health issues that ignored. One of the basic goals of this study is to create an angle of view for the gender basis on the quantity of these problems, how they emerge, and the way how it is applied in Turkey .

Immigration in the World and in Turkey : Specification of the International Immigration Towards Turkey

As can be told that the line of evolution from the historical aspect of immigration movement has been changed both by quantity and quality in the very last years.

Immigration movement is spreading fast and it attributes internationally especially all around the World. Furthermore the wideness of the immigration movement persists to tend to increase. The most important difference of the immigration movement in the past and the ones take place in present is derived from being disordered and the urge to take it under control. It is possible to examine the relation of the international immigration that varies in four different periods (1). Almost every developed country has a way to try to limit immigration and that wants to take it under control. The main inclination that we come across is to decrease the negative effects which arise in the labor market against local labor and therefore the reaction to public opinion. Immigration movement contains a dichotomy without being based on the discrimination of a specific type or race. While it's being tried to be limited on one side, on the other side it holds the developments that to be encouraged. On the contrary, the countries which have an elderly population have been observed to give easy approval to a remarkable number of immigration and to the immigrants whom are considered to be convenient for the circumstances. Even in U.S.A students who have post graduate degree have an extra year for their work permit, in case they find a job and on the demand of the employer, the duration can be extended.

On the other hand, it has been observed that most of the immigrants have come as fugitives and in irregular ways to these countries even though these countries support this kind of immigration. The groups that immigrate work for the jobs that require no qualification with low fee even they have various qualifications. The local work force in the labor market are disciplined in some degree, through these foreigners who work by settling on a low fee or forced to work for such jobs with the circumstances of the labor marketing.

Other than all these facts, part of the immigrants that have to leave their country because of climate change and political reasons, struggle to be fugitives or gain the status as a refugee and to settle in a third country. The chaotic situation that is caused by the affinity of power around the World and the movement of freedom and a number of political developments makes many potential new immigrants to move to the neighboring country before all else than to more developed countries. Significant number of these new immigrants from Middle East and many other Asian countries who leave their country, flee for good.

It is not possible for these several kinds of immigrants to benefit from the citizenship

rights fairly. Especially a great deal of right regarding the unity of the social life, is applied in a very limited way when it comes to immigrants, working life also contains many restrictions in this context. Thus the condition of immigrant women and their compability to the country that they migrate and the effect from discrimination policy has become heavier then immigrant men.

There are many discriminatory policy about social security, healthand working rights to be ensured especially for immigrant workers. In the formation of this policy it's been observed the manner of the bloc for the immigrants has been differentiated with the collimation of the public opinion in the countries which accept immigration. Base support to the government parties sustaining the policy against immigration which has been increasing especially in the last few years is being observed to be significantly effected by unemployment and racist intensity. It is possible to rest on this basis that the policy against immigration and following legal modification which ascending in France and Germany. The Hartz Law that has been in force since 2005 has dramatically effected the immigrants in Germany. (2)

Generally, to work as immigrant in a country brings along the case of a particular line of job. The labor that in need especially in developed countries trend on unqualified and cheap labour. Almost all of the jobs that don't require much of a qualification and with low fee are being done by the labor of the immigrant women. These jobs are being done by the Mexicans and Caribbians in US, Turks, Africans , Fareasterns and Kurds in Europe. Again in this respect, almost all the workers in housekeeping and nanny/nurse industry in Turkey are unsteady number of immigrants from neighboring countries.

The transitional stage of capitalism in Soviet Union in the beginning of 1990s, had caused a remarkable potential of immigration in these countries. Besides these countries has established their own nation-state by seperating from the union one by one during this process. The social impact of this important transition has showed itself in a short time. The countries of the former union that aims to accomodate their citizens in a socialist system has postponed this goal both for the basic quality of capitalism and the weakness of the new founded states. And from the point of view of individuals of the society, the superior education they got during the socialist period has not been enough to find a job in this stage. The qualified labour potential that has consisted in socialist countries has been unemployed after the transition. Besides the disappearance of the equitable policy to provide social equilibrium has ended up spreading the poverty in time. In brief, with the picture that emerged from these countries is the high ratio of unemployment and economical poverty has stepped forward. This picture has become the prime driving force of the immigration to neighboring countries and from there to other countries for the countries called as transition economies. Hereby a significant proportion of unsteady immigration

movement has been started to the countries in the district including Turkey.

Demographic transition (increase of the average life time) and the changings in the family (proliferation of nuclearfamily)that come together brings out the demand of nursery for the elderly and the children as a professional service by mean as outside of the family. We know these services has been started to be provided via market as a result of especially the side effect of the pursued policy of neoliberal and the policy to narrow down the service offers of the state (especially education and health services) . Most of the jobs that done by these women (housekeeping such as cooking, cleaning, elderly, child and patient care), has increased the demand for; low qualified, cheap, easily hired and fired women labor through the increasing value of participation of the women partaken in the labor and turn to new professions, that reach to economical level to buy and have reached to a social status (3). Increasing demand to these services, has caused the women to head toward this line of business even more. Even in Turkey, immigrant women's prime working area is nursery at home, nanny, and housekeeping.

Feminization of Migration

The share of employment for women has been observed to increase significantly in the countries that newly become industrialized and with high income since 1970s. This boost is appeared to be in industrial employment especially in Asian countries with extensive exportation (4) . We can also see the women in service sector as well as industrial employment since 1980s.

It's a newer development that the fact of immigration between women has recently been rising. The share of women within immigrants in Europe has the highest portion comparing to other districts (5). The significant increasing of the women that participated in labor is closely associated with economic crisis, political and social changings, and the movement of globalisation. According to job participation regarding the gender, while taking care of the household is traditionally provided by women which is left to wage – and mostly – treated by a woman's labor with the participation of these women to the labour force. That's why to employ a foreign immigrant women is the cheapest option because of the many reason that has been spelled out.

The striking feature of the female migration is the women that immigrate are employed for unqualified and unrelated jobs regarding their occupation and education. Even the same situation applies to male migrants, because of this reason, it is possible for women to find a job easier then men (6). Thereby, another point of view for the concept of feminization of immigration is the women work for the jobs appro-

priate for their role of the gender when in a new country cause of descending of the importance of professional formation or occupation in their own country. In this manner, while they are qualified labor in their own country, they find the chance to be employed for the housekeeping industry as unqualified labor in the country they immigrate to. On the other side, even they pursue their own occupation, they work in lower position. For example women who works for public health such as doctor or nurse, they can only work for patient care elderly or child. A study in France shows that immigrant women have a larger share on the unqualified jobs comparing to male migrants and nonimmigrant women (7).

Female migration has been happening depending on the male of the family most of the time (husband, father or brother) up to last 20 – 30 years. Another feature of the female migration in the last few years is women immigrate independently from men (8). In other words, it means that the woman immigrates by herself to another country by leaving the family behind, not after a man by the connections such as marriage. In this sense, feminization of migration should include migration that is done by women without being attached to the men, even if it is a definiton based on the increased number of female migrants. This situation also brings along lack of social support by the family and longing fort he family especially to children. This deprivation and longing has become one of the prime reasons that effect the woman's psychological fitness in a negative manner.

The independent migrant of the women as is described above, brings out a different social support mechanism with the solidarity with one another. This solidarity is a process that includes either the help before immigration or to find a job after immigration. As there are women that immigrate to Turkey with the help of their neighbour, relative or a fellow citizen and carry on the same solidarity, there are also the ones who have been dissappointed or deceived in this process (9) . There are kinds of situations that commonly run into such as one sends money to homeland via friend that gets rakeoff, or the money is being delivered missing without any information.

The situation that the female migrants get in is triple the disadvantage comparing to the other members of the community. The rate is higher comparing to men first of all when it comes to violence cause of being a female which is peculiar to patriarchal community, sexual harassment, rape, or the danger of being abused. Secondly, to live as a foreigner or even fugitive in the country huts a serious negativity. It also brings the danger of being subject to ethnic discrimination along with the negations as to be belonged to a different ethnic group, not knowing the language, being unfamiliar to culture. Eventually, the state of these women holds the fact that strengthening the inequality as they are in economical impotency at the same time. At this point, it has to be considered that female immigrants also immigrate to a country as Turkey which has strong patriarchal norms.

Health of Female Migrants

Working conditions effect job satisfaction both for female and male, though there is certain knowledge that paid jobs effect the women's health in a good manner as in the literature. While the knowledge of the person for the job, to use his/her creativity, and self determination increase the satisfaction for the job, without these strings it causes disaffection just the opposite. The case of the immigrant women who work for housekeeping industry is also called as servants of the globalisation has an effect on their mental health.

On the other hand, the income of the woman is irrevocable for the family she has left behind and the burden of this responsibility forces her to accept any kind of working condition. The necessity to female labor has the potential to make positive contribution to their mental state by bringing in the feeling of being able to do something usefull while however they are not satisfied with the job they are doing. It has been expressed by some female that the psychosomatic disorders as a result of the experience of the economic abstinence has disappeared by itself after immigration (9). Nevertheless sanity of the female immigrants have a break down because of the heaviness of the negations that mentioned above regarding working conditions.

The patriachal system almost in every community on earth even in different levels makes it much more acceptable in society as if the women working in private areas (home etc.) than the public areas. This acceptance is a factor which makes it easier even for the immigrant women to work for housekeeping industry. This cultural norm, also causes female migrants to become isolated in their own community. For example, It is stated that the women immigrated independently and then get back to their countries has faced the social isolation, and men don't get married with these women in the countries which has strong patriachal society structure such as Bangladesh (10). The supremacy of working at home is a suitable way to hide away from government agencies especially for the illegal female migrants. The state of being a foreigner in a country brings along the avoiding the contact with all the component of the state, either you're legal or illegal (11). So especially the illegal female migrants choose to spend their resting hours in their off days or hours in the house. She also avoids to inform public authorities in case of any kind of maltreatment as violence at home, or sexual exploitation (12) Female migrants – especially working in informal sectors – have lack of adequate protection and open to human trafficking, violence and exploitation. 80% of the victims of human trafficking are women (13).

The ones who immigrates are healthier both in their own country and the country they immigrate to due to their jobs conceptualize as healthy immigrant hypothesis in the literature of themigration (14). Despite that this healthy people rapidly lose their health after immigration and become unhealthier than the community of the

country they arrive to is described as epidemiological paradox. Main elements that is responsible which make the immigrants unhealthy fast are poor living conditions and stress (15).

Starting from the assumptions of healthy immigrant, physical health of the migrant women in the housekeeping services in Turkey is in good condition as expected in accordance with the literature or in a level as not to keep them off work (9). None the less, almost all of the women that participated in this research have psychosomatic disorder, and it is pointed out that their mental health is not in good condition. Even those female migrants have a social cooperation within the scope of friendship, the isolation of work related condition and being alone is taken under consideration. In addition to this isolation, the anxiety and longing for their children and family that they have left behind, create a major burden.

The immigration is related to underaged children of the female migrants as a result of high fertility rate in countries that gives immigrants (Turkmenistan, Uzbekistan). Children are taken care of mostly by grandparents (especially grandmothers) that are left behind, and less by the husband, or the oldest daughters. The children that left behind always have less care in this picture called as Chain of Global Nurturing (16). The phenomenon of global care chain also stands out for sliding of nurturing to a lower stratum in conclusion of the female migrant spends less time for caring for the family she gives assistance. This situation points out the vertical transition between classes as the correlation of the “nurture” and the role of gender has taken into account (16).

The nurturing which is handed over by the female migrants to the other members of the family that not immigrated, doesn't deter the women to endeavour emotionally. Such that, a woman immigrates to another country for working, worries about the life she left behind and the longing for the children back at home. The format that is described as emotional endeavour is being observed as the prime reason to increase the level of anxiety and even for the several psychosomatic disorders (9,17).

Another issue which is emerged that female migrants face in elderly care is the death of the old person that she takes care of. By the death of the old person whom has been taking care of which can be defined as “a good job” for the female migrant, means that she needs to find a new job as the present one terminate itself.

The most important reason to the immigrants' psychological problems is the immigration itself and the stress in this process. The subject that matters is assimilation process between immigrant and the community that is being immigrated in, and on the other side the effort not to lose the self identity (18). The situation of the female immigrants get into causes the rapid deterioration of mental health in addition to the observation of this condition in the community. It's also known the “invisible” sexual

exploitation which is hidden between the walls of a house, effects the psychological health of the female immigrants who serves in housekeeping industry (12).

Health Rights of the Migrants and Legal Regulation

Fullfilling the health service for foreigners outta Turkey is in a very complicated frame. First of all for the foreigners that get into the country is an important margin as in which legal way they use to get into the country or other than these ways which status they have applied for. Benefit from health care for the foreigners is basically substantiated in three different structures.

There is a forth group that is predicted as the widest and cannot benefit from the health care outside of these three systems. As a matter of fact, Amnesty International states that the health and education system of the immigrant workers are insufficient and in bad degree. “ If you’re bringing your labor, you’re welcome; but our doors will be closed if you need to get health care service. “ (19) .

For the foreigners in Turkey who likes to benefit from health care is like for the ones who has residential or work permit, or without this permit who gets to Turkey by getting visa but live and work illegally, and the third group is the refugees and homeless foreigners¹. For the ones in the first group who has entered to the country legally and has the permit to live or work in case they don’t have insurance in their home countries and been living in Turkey legally more than a year, can be taken into account as insured by public health insurance system from this date, and can start to benefit from the health care. For the foreigners who have work permit can benefit from health care without considering the one year duration and the premium is being paid like any other Turkish citizen.

It’s possible to benefit from the health care for the ones who has no work or residence permit but live and work in Turkey only if they pay for the price for the health care they require. There is the data regarding the payment of these expences is paid by the employer of the foreigners or themselves (9) .

It is possible to benefit from the health care by being stated to public health insurance system by Ministry of Internal Affairs for the ones in the third group as refugees or homeless only if they are accepted for this status (20) .

Implementations

The foreigners in Turkey who have residence permit legally, will be insured with general health care in case they reside for a year by means of reciprocity. In case a foreigner who resides in Turkey for a year gives declaration for admission to health in-

insurance system (Social Security Institution), he/she will be considered as insured.²In case the foreigners don't give a declaration for general health insurance, SGK will be applying for that exofficially and administrative fine will be applied based on minimum wage to the relevant person. Aliens will be paying based on double the 30 days amount of the bottom limit of the daily income without being subject to a inquiry for the income. They will be entitled to healthcare with 30 day premium payment. 12% is the General Health Care premium that needs to be paid. The basic profit for General Health Care is double of the minimum wage (21, p:231). Within this context, who likes to benefit from health care without any job connection but has the permit to live and work are the ones mostly who buys estate in some regions (22)³. Besides the substitute for chronic diseases of the foreigners which they used to have before they got insured by the general health care won't be covered according to update to law 5510 Social Security and General Health Insurance (21, p275).

We know that the people considered as refugees or homeless are secured by general health insurance and should benefit from these healthcare cost free⁴ (20). However there is no information regarding refugees and homeless are taking benefit by this way. On the contrary, there have been testimonies regarding the right to benefit are very limited and almost impossible (23). The main reason for this situation is the refugee is being considered to be a criminal upon (illegal access to country, visa intrusion, to be involved in a crime) committing crime, and being under administrative observation in guesthouses or transit areas. These headquarters are called as repatriation center. Even though the basic and urgent medical care are cost free in these centers according to the law, it's understood that the service can not be provided sufficiently (24).

A part of the people under custody in these guesthouses are refugees. BMMYK defines for the refugees : " To leave the country is the only way to be free of these places like prisons, camps, surveillance centers, or including transit areas at the airports, restriction of the movement in a finite room or a place with narrow limitation." (25, p:9) .

The ones under police custody has declared that their health problems are ignored, and the request to see a doctor is being refused. In some cases, serious medical problems exist for weeks without medical diagnosis, and this causes the diseases to advance and become a treat to public health. Also, The price has to be paid by the ones under custody from their own credits and the prices are quite abnormal. There is no psychological assistance at the guest houses, yet the ones under custody state that extending the duration of the custody have them exposed to destructive psychological effects (25, p:23) .

As a result, benefit from general health care and social security is substantiated within limits for the foreigners who come to Turkey. It's a very small scale to be included in this system for the status as refugee and homeless.

The total number of the foreign workers with the work permit is 16.890 by 2011. 42% of these are women and it's monitored to be increasing (26). Besides the portion for homecare is very small within the ones who work with a permit. However aliens need to apply for residence permit in a month after they get to Turkey to get a work permit with an update to law 5683⁵ regarding registering foreigners working in housekeeping services since february.1st.2012. We suppose many of the foreigners and women who Works get the residence permit and apply for the work permit. By this mean, we know that many foreign women works for house keeping industry are now being registered to social security system by their employers⁶. So it becomes possible for the foreigner women to be included in social security system.

Only one of the facts leads the way in the subject. The number of foreigners with residence permit has a boost of 37% in 2012 comparing to the previous year. And 44% increase on the number of the ones who applies for residence permit for job related issues (27). As it's understood the number of residence permission is given in 2012 is more than the number in 2011. This explains the intensity of the applications for residence permit as it is explained above regarding circular by Ministry of Internal Affairs. The intensity of the applications is mostly by women who works in house-keeping industry for a long time as we presume. Addition to this, it's understood that the high level of penalty is a reason for some of these women not to apply for residence permit⁷.

Conclusion

Immigration and the fact of being immigrant associated with humanbeings who is searching for a better and new life throughout the history, has turned into a different form and aspect in the last 20-30 years with the expending movement of globalization. Despite all the limitations, the global movement of the labour force has turned out to significant number of immigrants to be in an entirely different geographical region. The living and working conditions of most of the immigrants' who lives in various status, become lower then some conditions in their home countries. There are many facts underlying to consider these people only as a potential cheap labor. Apart from these, there are many troubled issue that they face during their lives.

In this respect, we don't have a certain information regarding the number of female immigrants in Turkey. The situation they are in is very complicated for the women with illegal migrant status. In one hand, the poverty of the community that they

came from and the reasons that force them to immigrate and on the other hand the intertwined stereotype of a woman that has formed by the norms of the paternalistic society of their own. The way becomes wide open with horror and exploitation by the addition of illegality where they immigrate to.

It is to be discussed the working condition that consumes these physically healthy women into psychologically unhealthy status in a short time. So that the state of the immigration functions as an “ insalubrity factor “. On the side of taking benefit from healthcare has many handicaps by the reason of especially unlawfulness, (including not to have residence and work permit) poverty.

As a result, there is no specific regulation in Turkey to get benefit from healthcare for the aliens and women working illegally. Especially it is possible for the foreigners to benefit from health services only in private health centers which are much more expensive.

It can be possible for the aliens who gets the status of a refugee or homeless to benefit from healthcare cost free. Before the application for these status, healthcare is limited and paid⁸.

For the ones who has residence permit and been living in Turkey more than a year, and in case they are not insured in their own country, they can benefit from healthcare. Here it's required to fulfill the condition of moving in to Turkey and having no chronic disease.

To benefit from healthcare for the ones who have both residence and work permit is no different from Turkish citizens. That can also be provided by GSS for a little number of foreigner who can achieve to get residence and work permit.⁹

Apart from these groups for the foreigners work in Turkey without residence or work permit, has no other way but to pay themselves for the medical expenses.

There are two conclusion expected in return that subjected to health upon the arrangements regarding registering the foreigners working in housekeeping industry in last year. Chronic stress and conditions that causes anxiety will be significantly lower after the disappearance of the negative causes such as unlawfulness, getting caught, being deported or exploitation by threat. On the other hand, female migrants who will be registered for the housekeeping industry will have no difference than Turkish citizen while getting benefit from general health insurance after they get the work permit.

We think the health care for the women that are included in working life somehow is a basic humanright. Even in the last layout of law regarding health has demands for foreigners whom to benefit from healthcare. In this point, the way of the women living illegally in Turkey shouldn't bring along the fact of not getting benefit from healthcare which is a basic human right.

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PROPERTY RIGHTS OF NATURAL RESOURCES IN A GLOBALIZED WORLD

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Abstract

In a globalizing world the needs particularly caused by increasing population brought the issue of common usage and sharing of oceans, lakes, water sources, oil, coal and gold, diamond and silver together. In the first chapter of this study developments relating to property will be researched. In the second chapter general information on natural resource distribution and property aspects will be given. In this context, externalities relating to the issue of natural resources use and sharing as well as economical result concerning arrangements and agreements made by countries and corporations will be emphasized. The last chapter of the study includes analysis relating to the effects of new property concept on natural resource economy and world policy. Fact of resource scarcity, which is the main topic of economics, has forced humans to create some procedures regarding use of scarce resources in order to meet their needs. This process defined as property rights is described intended for using current resources effectively. Property rights are examined in literature in separate categories, private and public. Private properties identified as the resources intended for need of individuals, certain groups, or some organizations at their wills. Rights of individuals, groups and organisations regarding property may include legating, excluding others, assigning and sanction mechanisms. (*Alcian and Demsetz, 1973*). The world that has been developed continually in the course of time includes process contributing substantially to changes and developments of requirements and living conditions. In the new world order with developed social and technologic conditions, institutional arrangements have become compulsory in relation to the rising needs of individuals and countries. In this context, property rights have also taken their share from the change. Scarcing of resources in the course of time and attempting of individuals and countries to adopt different sharing conditions in the distribution of said resources gave rise to different geographical distributions and different property structures all over the world. In this context, issues relating to natural resource distribution have come prominence in the agenda. Rapid change in the process in the beginning of 1990's and new political developments in the world geography added a new dimension to the concept of property right. Particularly the East Block, which has newly entered the distribution process, set a good example for the practice including the idea that natural resources can be under property of private persons or corporations (private property) as well as state (public property). Particular countries and institutions can only have common property right between the private and public. In this scope individuals, groups, organizations and countries that have natural resources exclude others and make decisions about management of natural resources by themselves. In a globalizing world the needs particularly caused by increasing population brought the issue of common usage and sharing of oceans, lakes, water sources, oil, coal and gold, diamond and silver together. In the first chapter of this study developments related to property will be researched. In the second chapter general information on natural resource distribution and property aspects will be given. In this context, externalities related to the issue of natural resources use and sharing as well as economical result concerning arrangements and agreements made by countries and corporations will be emphasized.

The last chapter of the study includes analysis related to the effects of new property concept on natural resource economy and world policy.

Globalization and Property

With the coming of 1980, criticism and comments about the phenomenon of globalization has started to vary. The classification of approaches led globalization's point of origin evaluate in different fields. In this context globalization; 1) Technological and economically viable 11) can be considered as the new phase of capitalism 111) can be considered as the result of the liberal-pluralist understanding, modernity crisis and diverse culture 1v) can be accepted as the changes that have occurred in the system of international relations¹. If looked from this angle, globalization can be regarded as a process variable. Globalization may give different results in different countries which have rich resources. The actual size of globalization's highlights is mutual interaction. On the other hand, it is a process that make some countries rich and some countries impoverished.

In terms of markets, especially the markets of developed countries, criterias such as expansion, deepening and becoming the dominant make the globalization process effective. Changes on the global markets have two-way effects. In terms of international trade, borders between countries are eliminated. This change cause to the emergence of an economic structure which is away from the statist policies and accept the sovereignty of global financial markets. The growth of the country by increasing trade between the countries and ensuring the improvement of production of goods and services thanks to global facilities lies behind the taken decisions. The main contribution of globalization comes from the developed countries in order to optimize their shrinking economies. They get this contribution by spreading the use of goods and trade in services to global level and investing their accumulated capital to new investments.

The globalization of production and capital has taken a back seat of decisions of the nation-state. This situation which allows the deepening of markets, limited the roles of institutions such as the IMF on state economy by means of stabilization policies in developing countries. Focusing on the sources of the developing countries, the global capital curtailed the capacity of economic decision-making of nation-states, caused the the emergence of high rated loans and caused wealth of high rate loaned nations pass through the control of global power. The global powers narrowed the range of movement of the politicians who ruled the country. They got the control of especially politicians' decision-making process about the social and economic expectations based on sources of national wealth.

1 Meryem Koray, "Reality of Globalization or Globalization," *Work and Society*, 2005/4, p 14

Three waves of globalization are discussed in the literature². The first wave coincides with the period in which Europe's agricultural economy transformed commercial capitalism. The second wave coincided with the Industrial Revolution, in which industrialism began. The most important indicator of second wave is an alternative search period for national markets. This is after the transition to industrial production as a result of inadequate of the demand for goods and services in domestic markets. The third wave, along with the 21th century to the fore with the information and communication age is a period including technological developments during this period, the nation-state has become inadequate for understanding the content.

The process of globalization should be evaluated within the frame of communication among the individuals, communities, and nations living in various parts of the world and the concept of bilateral trade dependence.

Globalization, representing the process of two-way trade in national and international level, is considered to be a concept that is dynamic and variable rather than a static structure. Considered as a multi-dimensional structure as mentioned above, globalization has economic, political, technological, operational, environmental, demographic, and cultural effects³. In this context, the process of globalization involves multiple actors. The main actors are composed of the nation-state, international financial institutions supranational institutions and local governments. The process formed as a result of these actors' interact and influence. Globalization, with a general explanation, is a process that national borders get unimportant, economic, social and human values distributed on earth, the homogenization of the development of communication networks and transportation network widespread and observed all over the world⁴.

Some of the main features of globalization⁵,

- Transformation of the national scale into international scale of resources in their production, marketing, distribution, consumption
- The use of advanced technology in the production of goods and services
- Global change
- The emergence of flexible, dynamic, variable and fast-paced environments and markets

2 Oktay Uygun, "Transnational Political Alliances and Globalization", Web Access, <http://www.geocities.com/vildizsarn/makale7.htm>, Access Date, 28/11/2012, Ayr. See the. Baskin Oran, "Which Globalization?", Web Access, <http://www.geocities.com/vildizsam/makale2.htm> Access Date; 11/27/2012

3 Firat Bayar, "The Concept of Globalization and the Globalization Process in Turkey", WebAccess, <http://www.mfa.gov.tr/data/Kutuphane/yayinlar/EkonomikSorunlarDergisi/sayi32/firatbayar.pdf>, Access Date: 12/21/2012

4 Abdullah Ozdemir, "Globalization Process Key Role: Energy Policies", Web Access, <http://www.aso.org.tr/b2b/asobilgi/sayilar/dosyaocaksubat20121.pdf>, Access Date, 12.22.2012, p 59

5 Abdullah Özdemir, *ibid* p.60

- Increased competition
- Increase in research and development activities
- Trade liberalization

Natural resource trade which is the main subject of world trade increased in recent years, has revealed the problem of the sharing of natural resources described as free movement of goods in the economic literature. This problem is also under the ownership of nation-state which has been damaged too much by globalization. It is open to legal processes in the future period about the subject of natural resources' property which is considered as national wealth of nation-states. This process is most clearly on Former Soviet Union in which natural resources are into the hands of private companies and seen on efforts to take control of the Russian state back. Especially the growing influence of globalization on nation-states caused to be the focus of the concept of ownership debate.

Especially in recent years, the emergence of a single world view on the use of free goods which is accepted as a common value by the global powers is effective on taking decisions. These decisions cause conservation of natural resources as a source of wealth and the limitation of decisions. Use of natural resources, including primarily local, creates national and global poses. This situation has brought right to disclose opinion on this issue of each person living on earth. The earth is surrounded by scarce resources. This situation has brought some of the rules regarding the use of these resources. Property right is a set of individual and inter-state arrangements which ensure efficient use of available resources.

Inefficiencies in the distribution of resources to attract constant attention to the advocates of the free market economy cause lack of property rights system. From this perspective, the concept of ownership are divided into public and private ownership. Advocates of free-market economy on the right of property defend that private property cause to be more efficient in allocation of resources and that defense is meaningful. For the features in which full property rights are available on the market⁶; After resources ownership, private ownership, source commerce, the income should be distributed equally and fairly by the markets. Under these circumstances, the owners of scarce resources in nature can maximize all revenue derived from the use of natural resources and its trade.

Private property rights that individuals have, include inheriting, excluding, transferring and enforcement mechanisms. On the other hand, public ownership is government ownership of resources, which is described as national wealth. Property rights which is a corporate agreement will be analyzed in three ways. Informal constraints,

⁶ Todaro, Michael, "Economic Development", Seventh Edition, Addison Wesley, 2000, p.422

written rules and sanctions⁷. Looking at the literature of economics, goods and services which are subject to international trade were found to be subject to income based trade among different countries. Being the subject to trade, natural sources, especially the ones which are the main source of wealth should forefront the commercial activities of the states that have different ownership structure. Among the countries, the concept of ownership make up a structure including especially in the ideological, economic, political and cultural differences; there are four aspects: private, public, open, common and open space⁸.

Resources in the hands of private individuals or institutions mean private property right, Resources in the hands of state means public ownership. With a structure similar to public ownership, public ownership, can be expressed as sharing the rights between individual and the state or two different states. The concept of property refers to unclaimed resources easily accessible for everyone. It should be expressly granted herein that common ownership is generally the easiest way for tconverting to private property. The goal here is to minimize transaction costs in certain areas, to draw up to the highest level efficiency⁹. To reveal the property, the unlimited request for limited resources should be arisen. This condition also proves the necessity of paying a price to those requests. When we look at the development of property rights over time, it has been observed that property rights is in relation to scarce resources.

The first written rules concerning the right of property relates to land ownership. Precious mines have revealed an increase in the volume of trade with new discoveries. It make the concept of property focused on precious mines and paper. After the industrial revolution, the growing need for natural resources have led fosil and derivative of underground resources to be the first order of international trade. Wealth that occur in groundwater resources are under the control of developed countries in conjunction with the colonial culture. The hegemonic powers which hold international trade in their hands, formerly took the control of rich underground resources with war and occupation. Later, the emerging transnational corporations took the control of ownership and operation of such resources with their written agreements.

7 Özge Kama "Environment and Property Relations in a Globalized World", Journal of Economic Sciences, Volume 1, Issue 1, 2009, p.15, Web Access, http://www.sobiad.org/eJOURNALS/dergi_EBD/arsiv/ebd-2009/02ozge-kama.pdf, Access Date; 19/12/2012

8 Özge Kama, *ibid* p, 15

9 Daniel W. Bromley, "Economic Interests and Institutions", The Conceptual Foundations of Public Policy, New York and Oxford, Basil Blackwell, 1989, the Web Access: <http://www.jstor.org/discover/10.2307/40751284?uid=3739192&uid=2129&uid=2&uid=70&uid=4&sid=21101469851263>, Access Date, 12/12/2012, p 286

Natural Resources and Economic Impacts

Natural resources on Earth emerged in a natural way, and it includes all resources used to meet human needs. Especially mines, water, natural vegetation, natural animal communities refers to natural resources. In addition, its domain area to earth is located at the beginning of the solar natural resources. Wind and rain are other natural resource class¹⁰. It is a known fact that natural resources are more scarce nowadays than production factors. Shown as scarce factor of production in economic literature, land's supply elasticity is zero. Similar to this, natural resources' supply elasticity is zero either. Being scarce of natural sources make the law of diminishing returns active. According to the law the mentioned, any factor of production is a result of other factors remain constant or decrease. In other words, while it is possible to increase proportionally with the other factors, natural resources are not constant because they are degraded. Natural sources are diminishing in this case and emerge the effects of the law of diminishing returns more clearly because factor components are negatively effected¹¹.

Unlimited natural resources to meet human needs is an essential fact. Many of the less developed and developing countries' young population and natural sources come to the fore. On the other hand many of them in the developed countries have turned towards natural resources other countries in order to avoid depletion of scarce resources. Because to obtain the natural resources of other countries is cheaper and more economical. More importantly, the developed countries do not want to consume natural resources that they have. In this respect, the importance of natural resources in developed countries is the key to economic and social development. In developing countries, this situation can not use their natural resources as required. Developed countries provide efficient and rational use of natural resources. In addition to this they have taken the necessary measures in the ownership of resources.

There are natural resources of each country in accordance with their physical structure. However, decision-makers' politics come to the fore about the priority of which is the source. On the other hand, natural resources are not distributed to regions at the same rate. However, having all kinds of natural resources, economic and efficient use of this resource will not show that there exists other factors. For this reason, policy makers, in particular to obtain natural resources, conservation, use and establish policies for the development. Policy-making, the need for natural resources, the country's overall needs in the areas, the amount of the income from trade in natural resources, cost and time factor for the evaluations is to the fore.

10 Koray Basol, Mustafa Yunus Celik and Mehmet Durman, "The Locomotive of the Development Process; Natural Resources", Mugla University, Journal of SBE Spring, 2005, Issue 14, p.62

11 Başol and others, 2005, *ibid* p. 64-65

Today, as a result of the effective use of natural resources, the resulting increase in the production process particularly national output, contributes to direct investment in the employment capacity, trade, energy, tourism and foreign trade. If the production process based on natural resources in national and international level is not supported, economic growth is not occurred. Lack of knowledge of natural resources among developed, developing and least developed countries is very high. Technological advances is the most important capital accumulation to eliminate the lack of knowledge. Even being rich in natural resources, the least developed countries which do not have efficient knowledge about operation, human capital and trade organizations remained weak in natural resource trade. For this reason, the developed countries by means of advanced technology, and human capital make plans for the future by removing inventory of mentioned resources. Recognized as scarce resources, natural resources contribute to the composition of factors only with the technological development. The easiest way to increase the efficiency of natural resources in the production process is to increase the effectiveness of human capital. Development occurs using resources efficiently and effectively and ensuring a high level of income.

Main Natural Resources That Subject to International Trade

The energy need which is accepted as raw material in the process of production has importance in respect of time dimension. The time, mentioned here, manipulates productivity, quality, production variety and increase in production quantity as a result of technological developments of production process. The increasing requirement to natural resource after industrial revolution is the main raw material of process of production. The coal, as the basis of steam power and the oil and the natural gas, following coal, assured the need to energy requirement. The uranium being the main raw material of nuclear power is used in production process and the gold and silver which are accepted as important mine, are used in international trade and store of value.

It is possible to group resources, available on the earth, in three; natural, humane and cultural resources. Sun, wind and air are though not to be run out while human beings are alive. Apart from these, water, fossil fuel, mines and plant cover are the leading resource that are supposed to die out relating the usage of them. Exhaustible resources make sense when they are used economically.

Basic relationship between natural resources, is in mutually complementary or competing statue. Complementary resources completer each other in production or utilization. And competing resources are those, whose quantity does not increase in

time. Although oil and coal are produced in terms of geology, they do not make sense economically. These kinds of resources do not show increase in the same rapidity with production.

However they decrease in time. Briefly they are stated as;

- Resources, not decreasing in time although they are used,
- Resources, decreasing in time although they are used.

Mine and coal resources, accepted as stock resource, are those which does not decrease themselves. Resources, such as oil and natural gas decrease themselves in time¹².

After industrial development, especially underground contributed immensely to production process. Natural resources, which are seen as national wealth and have been mentioned in international trade, war or covenants since nineteenth century, are classified as both we mentioned above and in the table1 below.

Table 1: *Classifying Natural Resources*

Nonconsumable Natural Resources	Consumable Natural Resources
Eternal Resources Wind Water Sun Wave	Underground Resources Petrol Natural Gas Coal Mines (Uranium, Iron, Copper etc.)
Renewable Resources under ceratin circumstances: Forest Geothermal Resources Soil Air	Estimable Resources Gold Silver Diamond

* **Formed by authors.**

Property Right of Natural Resources

Advocates of free market economy accept that inefficiencies and injustices that occur in the distribution of natural resources arise from deficiencies property right system.

¹² Başol and others, 2005, ibid p.64-65

To have full property right of all natural resources depends on four conditions¹³;

- To be universal; able to reach all natural resources easily and to obtain them.
- Personal situation; the usage right of owned-source belongs to only one who has authority of ownership.
- Transferability; natural resources are moved from one place to another place smoothly.
- Applicability; the proceeds which is gained from trade of natural resources is provided by markets in effective and equitable distribution way.

All of these conditions for the source owner, shall have an understanding which will maximize the benefit and profit resulted from use or sale. Well-defined property rights are important for attracting the foreign capital or technological investments into the country. The trust that investors look for, come to the fore in determining the process for production activities. Legal and institutional arrangements are required in the countries which targeted to encourage the needed foreign capital into the country. On the basis of the property right, market discipline lies. Today, the property in a single collection is important for the effective management of natural resources. From the perspective of public or private property, the principal element in the effective management of resources is productivity.

While private property which has targeted high profit leads more efficient production process, according to implementation of politicians efficiency of natural resources managed by public funds has been increasing or decreasing. Level of efficiency and profitability show the highest level for the understanding of the capitalist production that has not met the factors of the production on the one hand. Consumer demands are not taken into account when there is a case of public property. Being effective on decision-making process of policy-makers will not be active in the earnings of government enterprise managers. In this case, there is not any expectation of high profitability and efficiency from the production of natural resources and the effect of the production process. As a result, there will be differences about making decision between public and private business directors.

Today many of the countries which have richness of natural resources tend to act together with international investors. The countries which assign their rich natural resources to international manufacturing organization in the past, now with the new management of approach, start to gather up the state activities and specific business logic. Rulers who have government enterprises of neutral resource areas such

13 Meral Uzun "Property Rights and Economic Development", Atatürk University, Faculty of Economics and Administrative Sciences, Vol: 23, 2009 Issue: 1 2009, Web Access, <http://e-dergi.atauni.edu.tr/index.php/IIBD/article/view/3820/3648> Access Date; 12/23/2012 p.297

as private business managers aim at high profitability and efficiency. This structural change shows that production activities of government split off waste and lack of understanding of activity. After that point, new approaches must be submitted about the topic of how ownership of the resources to enabled hands of the government. The primary goal of any state is to be loyal to the goal of reaching high level of prosperity. With this goal willing the right of possession in the hands of the so-called national wealth and natural resources as a source of wealth to be the new policy approach.

Conclusion

In the literature of economics, known as the factors of production labor, land, capital and developing entrepreneurial concept of economy and thanks to with being of supported the rules by new technologies prepare the ground to emerge of new factors. Labor factor with the developing technology in time strengthened new production factory which has known as the human capital. In literature, the so-called as land and/or natural resource, the factor of production today causes separation about underground resources which are the source of wealth. Ground as a production factor in terms of agricultural production and underground resources wealth should be considered as to separated production factors. While as a main factor of agricultural production ground stands alone as production factor, underground resources wealth is main factor of natural resource trade which is new resource of wealth is accepted as new factor of production process.

Recently, it begins to emerge the requirement of social and institutional change in new management of approach. The reason is that prevent to gather in the hand of the source of wealth. Which is considered within the framework of national wealth and population of the state divided by collection of resources in the hands of high – profit organizations targeted, triggers high rate of inequality in terms of income distribution. While in the previous periods countries featured their wealth and their power with their new discoveries and rich minerals they obtain today rich global firms are more effective than nation state in production process. This kind of independent firms that use the power of the concept of the private property, individuals who are original owners of the wealth come to active positions in country administration and continue to cause the country to be poorer.

Within the framework of today's economy the most important asset which knowledge and skills by individuals is forefront by their personal wealth. Instead of the source which belongs to state adopted national wealth individuals governing the country with their knowledge and skills, countries which have high amounts of capital enter the ownership of transnational companies. The basic of debate of ownership lying the firm at national and transnational conflict. While nations have obtained

income from sources of wealth's ownership among individuals divided, private equity companies taking under the ownership of the national resources profits are demanding of the group of high income.

Changing management and policy by seeking the protection of individual rights, the government changed the boundaries of property, which redistribute income and ownership of natural resources is expected to be entered in the policy-making process again. Especially in the developing countries into the process of restructuring and development of the domestic accordance with the terms offered some protection standards. However the biggest problem in developing countries is the lack of direct investment and technology transfer which should not be ignored that request. In this context it is obvious that natural resources rights of property they held will be the power in international trade connection. The retention of the rights of ownership search for reformist policy for developing countries, the main point do not have enough external sources. Natural resources in particular the right to property in the hands of nation state, legal repetitions and reforms are required to keep.

Throughout human history property rights of natural sources, which even cause worst brought different arguments from past to present. Especially the ownership about the topic of who will be owner of rights of natural resources saving use and enjoyment, different applications in which these rights would be brought within the limit. The right of property should maximize the benefit of the communities. Nation-states should be a balance with the individuals and the private sector. The concept of the right of the property includes the social nature. As a result providing natural resources to use moral effective and more efficient should be under the ownership of nation states. In the private sector the public interest except from transfer of ownership at natural resources and social benefits under the control of state should be observed ownership of natural resource low and under the control of nation states, in the process of production. And international trade should be evaluated as an element of income and wealth. Income and wealth in the hands of elite groups derived from natural resources and power supply in order to prevent the collection of nation-states should play a more active role in policy makers.

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12

BETWEEN STRATEGIC DIVERGENCE AND CONVERGENCE: ISLAMIC REPUBLIC OF IRAN AND UNITED STATES

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Abstract

The end of the Cold War and the emergence of new independent republics in Central Asia offered Iran the opportunity to become a vital actor in the geopolitics of the region. Iran was seen as a possible corridor between Central Asia, the Persian Gulf and the Indian Ocean Region (IOR). Struggling against US policy of strategic isolation, Iran made concerted efforts to break out of it by cultivating closer ties with non-Western powers. It used diplomacy, energy and trade for this purpose of balancing its foreign relations. This paper will assess the strategic ambitions of Iran as a regional power and the degree of its success in combatting Western imposed sanctions and the US military threat over the disputed nuclear programme. This 'balancing against the West' was the dominant approach during the Conservative presidency of Mahmoud Ahmadinejad. The paper will argue that Iran's strategy to balance between the US on the one hand and China, Russia and India on the other, was a failure. The defeat of the Conservative faction and the victory of the moderates under president Rouhani has witnessed new efforts to reconcile Iran's differences with the West, especially with the US.¹ This reflects a changed approach to serving Iran's interest by working with, and not against, the West. Due to nuclear détente, growing strategic convergence with the US in Iraq and Afghanistan and the American shift in emphasis to the Pacific, Iran has an invaluable opportunity to re-emerge as a crucial power in the Indian Ocean Region.

Introduction

Geography is the fundamental factor in foreign policy making, because resources and strategic locations define the significance of a region (Agnew & Corbridge, 1995). Spykman suggests that, "ministers come and go, even dictators die, but mountain ranges stand unperturbed" (Spykman, 1942, 41). The geographical location of Iran, one of the largest states in the Persian Gulf, with the population of 76 million, 65% of whom are under 35 years-old and are comparatively highly educated, makes the country an influential actor in the region.

The Strait of Hormuz serves as the gateway to the Persian Gulf and hence, it is the most important oil checkpoint in the world. The strait is especially vital to the Asian

market as more than 85% of crude oil imports to Japan, India, South Korea and China goes through this channel. In addition to this, the passage of liquefied natural gas (LNG) through the Strait of Hormuz is also of great significance, with Qatar alone exporting 20% of the global LNG trade (Energy Information Administration, 2012). Apart from exporting energy, Iran has a potential to develop a pipeline from Central Asia to the IOR. Chabahar, a port city just off the Indian Ocean in southeastern Iran could become a gateway for oil and natural gas exports from Azerbaijan, Kazakhstan and Turkmenistan to the IOR. As S. Frederick Starr points out: “it is access to the Indian Ocean that will help define future Central Asian politics” (Starr cited in Kaplan 2009:23).

Since 1979 Iran has also been under extreme insecurity as it has been the target of sanctions, invasion and military threat, part of being “axis of evil” by the US in a very volatile region.² Given these conditions, the Islamic Republic’s leaders had to legitimize and assert their own power domestically, regionally and globally. With the end of the Cold War (1947-1992), the emergence of the energy producing countries in the Caspian basin provided a different opportunity for Iran. Since 1979 Tehran extended its power and influence to the wider IOR, offering a corridor from Central Asia to IOR.

For the IOR energy security is vital and smooth relations between the suppliers and consumers are crucial. Given this regional capacity, Iran has been trying to use its energy diplomacy to expand its energy to the IOR, to involve international oil companies to assist Iran in oil and gas exploration. Under huge pressure from the US, post-revolutionary Iran has tried to employ both convergence and divergence strategies to balance between the regional powers. Under Akbar Hashami Rafsanjani (1989-1997) and Mohammad Khatami’s (1997-2005) presidencies Iran took a reconciliatory approach but there was an absence of compromise by the West and in particular the US. Even though both sides cooperated on the removal of Taliban in Afghanistan and Saddam Hussein in Iraq, the aggressive attitude of George W Bush’s administration provided an opportunity for the Conservatives faction in Iran to pull away from the pro-Western conciliatory approach (Moslem, 2002). Consequently, the West’s expanding sanctions during Ahmadinejad’s administration (2005-2013) caused domestic economic difficulties for Iran. The Conservatives instead, used the threat of outside power to protect and defend their own ideological, economic and political interests. They called for closer collaboration with North Korea, China, India, Russia, Syria, Hamas in Palestine and Hezbollah in Lebanon. They hoped they could go back to Iran’s initial approach after the revolution of, ‘neither East nor West’³, and closer collaboration with the Non Aligned Movement (NAM) would serve Iran’s interests better.

The responses by Western governments were restrictive sanctions, which mainly tar-

geted Iran's energy sector and its access to the international financial system, have caused enormous problems for Iran's economy to a point where the country had to re-examine its foreign policy. Iran's regional ambitions and its role in the IOR have been affected because of its inability to acquire foreign technology and weaponry. The sanctions imposed by the, especially during Ahmadinejad's period, became bearable to a certain extent for Iran's economy; however, the game-changer was when sanctions were no longer imposed unilaterally by Western countries, but took the form of internationally cohesive sanctions passed as resolutions in the United Nations; effectively, also involving other countries and organisations globally. A key explanation for the victory of moderate Hassan Rouhani in the elections is the fact that a change in the direction of foreign policy was deemed as necessary to resolve the ailing economy.

This article will examine the strategic ambitions of Iran as a regional power, its success in combating Western imposed sanctions and averting the US military threat over the disputed nuclear programme. In doing so, we will trace back Iran's foreign policy approach towards the West and the region since the 1979 revolution as it has both involved opportunities as well as costs for the Islamic Republic.

It will especially focus on the confrontational approach of Ahmadinejad's presidency and Rouhani's primary interest in seeking reconciliation with the West - or avoiding detrimental confrontation to say the least; it will be argued that this latter approach is driven by the need to recover from an ailing economy as well as to maintain a status of a credible regional power and an important actor in the IOR.

In order to understand the contemporary challenges of Iranian foreign policy, we need to examine the contested relationship between Iran and the West, especially as it relates to the geopolitical contours of the US-Iranian relations. In doing so, we will compare the Rafsanjani and Khatami's convergence strategy of foreign policy against Ahmadinejad's aggressive approach in combating Western imposed sanctions. Finally we will examine the prospects for the future of Iran under a new president - Rouhani - and his ability to navigate Iran through difficult negotiation with the West and its ambitions in the IOR.

Regional Approach in Post Revolution

Iran's geopolitical identity forced the new government after the revolution to balance out the threat of the West particularly the US with Russia, China, India and the Third World anti-imperialist countries. Given the importance of oil globally and the fact that most of the production and supply went through the Persian Gulf, the revolution in Iran created instability in the Middle East and beyond. The impact on the price of

oil was instant: the price of oil increased from \$13 per barrel in 1978 to over \$35 per barrel in 1980 (Statistical Centre of Iran, 1990:15).

Revolutionary Iran also broke its relations with Israel and welcomed the Palestinian authorities to take over the former Israeli embassy in Tehran. The days when the US could have hegemony through the surrogate regime of the Shah was over, so they had to adjust their strategy in order to maintain their hegemony over a region that was witnessing major political transformations. The occupation of the US embassy in November 1979 by militant students that was later endorsed by Ruhollah Khomeini only worsened the relationship between Iran and the West. The US responded by stopping shipments of spare parts worth \$300 million and freezing \$10,00 million of Iran's assets abroad (Mostyn, 2001:62). Under pressure from Washington, Japan and the UK too boycotted imports of Iranian oil (Fisher, 1990:454).

The perceived threat of the spread of the Iranian revolution encouraged Iraq to invade Iran in 1980, sparking a war that lasted 8 years. Thus the Iran/Iraq war came as a welcome opportunity for the US and its allies to firstly, weaken those two powerful states in the region and secondly, remove the threat of Iranian revolution in the region. The US supported the Iraqi action with Zbigniew Brzezinski, the US National Security Adviser, stating in April 1980: "We see no fundamental incompatibility of interests between the United States and Iraq" (Gordon, 1981:154).

Regionally, countries such as Saudi Arabia, Kuwait and Bahrain gave their blessing to Iraq, whilst Syria, the sworn enemy of Saddam Hussain, decided to take the Iranian side. This brought Iran closer to Hezbollah in Lebanon as Damascus became an important geopolitical gateway to Lebanon and the Israeli-occupied Golan Heights.

Continuing sanctions imposed by the West and the falling price of oil in the world market exacerbated Iran's domestic economic difficulties leading to the inability of the Islamic Republic to continue the war. The price of oil declined from about \$30 to as low as \$10 a barrel in 1986, settling at around \$18 in 1987 (Statistical Centre of Iran, 1991). The fact that Saudi Arabia, a very close ally of the US and Iraq, did not need huge revenues from oil meant that it continued to export high quantities of oil to flood the market. Iran's oil revenues dropped by 59% for the first half of 1986, compared to the first six months of 1985. The comparative figures for the same period were a 30% fall in Iraq's oil revenues, 24% for Saudi and only 8% for Kuwait (Renner, 1988: 194). Khomeini was finally accepted the UN resolution number 598, ending the war on July 1988 (Chubin and Trip, 1988).

Post Cold War Reconciliation

The post Iran/Iraq war and the end of the Cold War meant a major reconstruction

of Iran's economy and the necessity for economic, political and social development were the key concerns for the policymakers at the time. A different vision of foreign policy postulated, as when Foreign Minister, Velayati, pointed out that the:

[The] objectives of the slogan ['Neither East Nor West'] is the negation of alien domination and not snapping of communication ... Nowadays, negating political relations with other countries means negating the identity of the countries (Ramazani, 1990: 61).

The emphasis on foreign investment and expanding trade meant developing mutually beneficial state-to-state relations as well as integration into the world economy. The moderate approach of Rafsanjani and Khatami helped Iran to cooperate with its neighbours, European countries as well as Russia, China, and India. The end of the Cold War and the emergence of new independent republics in Central Asia enhanced Iran's ability to become an important actor within IOR. Central Asia has over 7.2% and the Persian Gulf has around 53% of proven global oil reserves and much of this is transported via the Indian Ocean (Nami, 2010:44). This provided Iran with a huge opportunity to influence the region.

One of the key development since the 1990s has been the efforts to upgrade the port in Chabahar through Indian assistance. The port is meant to link a North South Transport Corridor from South, Central and West Asia to Europe. This project would have facilitated export of crude oil as well as that of natural gas through the pipeline. The project is also important for India as the China have simultaneously been working to develop the Gwadar port in Pakistan, only 72 kilometres East of Chabahar. Russia's development of the road and railway infrastructure connecting Central Asia to Eastern and Western Europe enhanced Chabahar's strategic position. Iran already had land links to Central Asia and it was expected that with the Chabahar Port the sea route to the IOR would put in another piece of the jigsaw linking South Asia to Europe (Ramachandran, 2002). Iran hoped that this would emulate the Old Silk Road and would be able to safeguard a transit route to the IOR and beyond. As the Iranian head of Chamber of Commerce indicated in 2008, the region with the population of 2 billion and GDP worth of \$2 trillion has huge potential (Morady, 2010). However, this project of a potential trade route between Iran and the IOR has so far been delayed due to: political and security issues; pressure from the US as well as the Gulf Co-operation Council (GCC); and domestic political bickering between different factions in Iran, especially during Ahmadinejad's presidency.

An opportunity for Iran to develop a new geopolitical identity emerged at the start of the twenty first century. American wars that led to regime changes in Afghanistan and Iraq helped Iran indirectly. For example, the new political dispensation in Iraq was Shiite dominated and closer to Iran. Tehran used the opportunity to assert its

role in the region and beyond, by collaborating closely with regional and international organizations that were not totally subject to Western domination. These included the Non-Aligned Movement, the Organisation of Islamic Cooperation (OIC)⁴, the Organisation of Petroleum Exporting Countries (OPEC)⁵, the Economic Cooperation Organization (ECO)⁶, the D-8 group, the Shanghai Cooperation Organization (SCO)⁷, the Conference on Interaction and Confidence Building Measures in Asia (CICA)⁸. Iran continued to augment its close relations with the emerging Asian powers such as China and India to neutralise American efforts to penalise Iran through sanctions, diplomatic isolation and threats of war. Even American commentators were growing anxious about the shift from a unipolar world to a more complex one where American dominance could not be taken for granted. For instance, as early as the period soon after the end of the Cold War, Henry Kissinger (1994: 809) had warned:

the US is actually in no better position to dictate the global agenda unilaterally than it was at the beginning of the Cold War... The United States will face economic competition of a kind it never experienced during the Cold War . . . domination of a single power of either Europe or Asia . . . remains a good definition of strategic danger to America ... Such a grouping would have the capacity to outstrip America economically . . . China is on the road to superpower status . . . China's Gross National Product will approach that of the United States by the end of the second decade of the 21st century.

In this geopolitical environment marked by uncertainties and a relative decline of its power, the US was keen on maintaining its primacy. The security of the oil supply from the region was important for the US and for this to be smooth Washington had to rely on its allies including Saudi Arabia, Bahrain, Qatar, Kuwait, the United Arab Emirates, Azerbaijan, Kazakhstan and Turkmenistan. However, the US continued its policy to isolate and penalize Iran. One major concern for the West was their distrust of Iran's nuclear programme. Economic sanctions continued to be imposed and this had an impact on Iran's oil production, industrial development and technological growth.

Rafsanjani and Khatami focused on reconciliation rather than conflict hoping that a new approach would serve Iran's interest by working with, and not against the West. The changes in foreign policy during their times meant an emphasis on investment from abroad, expansion of trade, development and removing Iran from regional and global isolation. Both Rafsanjani and Khatami actively engaged in ensuring the region would be relatively stable through cooperation with the Persian Gulf Countries and the US.

Saddam Hussain's invasion of Kuwait in 1990 helped Iran to position itself better in

the region. Iraq became the focus of the West and regional power as Saddam Hussain became a bigger threat. In response, the US-led coalition forces, supported by Saudi finance⁹ undertook the first 'Gulf War'. In the long term, this was a blessing for the Islamic Republic as it removed one of its biggest regional challengers in the Persian Gulf.

Iran played an important role when the US invaded Afghanistan and removed the Taliban in 2001 (Saghafi Ameri 2009). Iran became the main trading partner for post-Taliban Afghanistan, especially since the port of Chabahar is the best access point to the Indian Ocean for landlocked Afghanistan. Iran had also to deal with the stability of Afghanistan for both tackling the refugee problem (over 2 million Afghans still live in Iran) and for blocking the flow of drugs.

Under Khatami's presidency, in a bid to gain Western trust, Iran temporarily halted enrichment of uranium, asking in return for an end to economic sanctions and support for its application to join the World Trade Organisation (WTO). Iran was ready to have a meeting with Khalilzad, the US ambassador in Afghanistan, to negotiate these issues but the US refused to entertain any negotiation (Porter, 2006). Iran's reconciliation strategy with the West and particularly the US over Afghanistan and Iraq during the presidencies of Rafsanjani and Khatami did not stop the US hostility towards Iran. According to the *Christian Science Monitor*, the West, especially the US and Israel, have used the nuclear issue as a pretext to serve their interest for over 25 years that Iran is only 3 years away from having a nuclear warhead. In 1992, Benjamin Netanyahu declared Iran to be between 3-5 years away from producing nuclear weapons, and that the threat had to be "uprooted by an international front headed by the US. Donald Rumsfeld in 1998 presented statements to the US Congress saying that, "Iran could build an intercontinental ballistic missile - one that could hit the US - within five years". The story continued in 2007 when President Bush warned that an "Iran with nuclear arms would lead to "World War III" (Peterson, 2011). After the 9/11 terrorist attacks, George Bush castigated Iran as part of a supposed "axis of evil" and demanded increased sanctions.¹⁰ Hence, when Ahmadinejad, the Conservative candidate, became president in 2005, a hard-line approach against the US was employed. His administration called for a parallel foreign policy based on both confrontation with the West and cooperation with others, including radical secular regimes in Venezuela, Ecuador and Bolivia because of their anti-US stance.

The World of Dominators and the Dominated

Ahmadinejad divided the world into two distinct camps; namely, those who are dominators and those who are dominated (Mohammadi, 2008:53). He talked of the 'golden age' of the revolution and the 'true' ways of Islam, taking populist approach,

mixing religious slogans with nationalism and, at times, Marxist class analysis in order to present himself as the people's President. Sloganeering and confrontational rhetoric were integral to his style of politics at national as well as international levels. Ali Khamenei and the Islamic Revolutionary Guard Corps (IRGC) supported him in order to side-line the Reformists because they were anxious at how fast Iran's economy and society were opening up to the West. IRGC's economic and political power increased under Ahmadinejad's rule; the government's privatization policy helped them to expand their reach to the oil and gas industries (Mather, 2009: 73). The IRGC emerged as a powerful organization, controlling 70% of Iran's state-run economy. In 2006 alone, the IRGC received subsidies of \$7 billion to develop gas and oil fields and to refurbish the metro in Tehran (Economist, 2009). Ahmadinejad, IRGC and Khamenei's alliance represented an authoritarian style of governance, something that marked a shift from the previous years. Their power rested on two pillars: the security forces and the oil industry; as long as the export and price of oil and gas was sustainable at reasonable level, this alliance flourished. Bina described the power and influence of the IRGC as a "wholesale para-militarization of the economy, polity, and the social space" (Bina, 2009:3). The Islamic Republic moved to protect its hegemony through the armour of coercion rather than consensus as Khatami hoped for. The IRGC has become increasingly visible and influential in the political process, owing to both Ahmadinejad and Khamenei's deliberate domestic policies as well to the international pressures felt by the country in the face of a continually looming US threat.

Ahmadinejad also sped up the development of nuclear energy to enable Iran to build a defensive shield against the US. He boasted by pointing out that the programme was a "locomotive without breaks" in response to Washington's threats that "all options are on the table, including invasion."

Ahmadinejad asserted that the West would not want Iran to continue its nuclear activities even within the framework of the Non-Proliferation Treaty (NPT). In fact surrendering to the Western pressure, as under Rafsanjani and Khatami had not benefitted Iran (Molana and Mohammadi, 2008). Although Iran remained in the NPT and continued negotiation with the West, Tehran believed that the main goal of the West and the US was not to suspend the nuclear programme but to end it.

In order to address and relieve any anxiety the regional countries may have regarding Iran's nuclear energy, he visited Saudi Arabia, the UAE, Central Asia and even called for resumption of diplomatic relations with Egypt. However, Iran's influence in Iraq, Syria and Hezbollah in Lebanon remained noticeable in the region (Walker, 2006).

In accordance, Iran became an observing member of the SCO in 2005. For Iran, the presence of China, Russia and later India in the SCO allowed for both a possible balancing of the US threat and a forum to challenge the US' unipolarity and its

global hegemony. For Iran, this was also important for closer bilateral and multilateral relations. However, when it came to highly sensitive issues such as Iran's nuclear programme, Russia, China and India either took no position or they sided with the West – although it was not always clear whether this is actually their official policy (MacAskill, 2010).

The US continued to isolate Iran by exerting pressure on its trading partners, including on China and India. For example, to appease India, the US Congress changed US law to allow a civilian nuclear deal with New Delhi in 2005, thus reducing India's need for Iranian energy (Fair 2007: 145). New Delhi had to balance between its relations with Iran on the one hand and the US, Saudi Arabia, the UAE and Qatar on the other due to its interest in both importing oil and having large number of Indian workers the latter countries.

India and China also used Iran as a bargaining chip to get concessions from the West over Pakistan and Taiwan. The Indian and Chinese, partly under pressure were willing to shift their energy imports from Iran to Saudi Arabia as long as they could get a good deal. In the meantime, the increasing global demand and price for energy reinvigorated the exploration of new oilfields and a rise in oil production in the US. There are estimates that by the year 2015 the US will be a major global oil exporter, thus putting it in a powerful position to determine the price of energy in the global market (Harris, 2014). This would give the US even more power to use its energy policy and oil leverage as means to establish its hegemony in the world. Iran's room for manoeuvrability is thus restricted as it faces a resilient US and emerging powers that are reluctant to indulge in balance of power vis-à-vis US.

Ahmadinejad continued exaggerating and sloganeering the impact of sanctions, calling the UN sanctions a “torn piece of paper...that will not have an impact on the Iranian nation's will to obtain nuclear energy” (Khabar online, 2013).

With great difficulties, India continued to import crude oil from Iran but at a lower level: from 16.083 million tonnes of oil in 2010-2011 reduced to 14.689 million tonnes in 2011-2012 (Jagota and Chaturvedi, 2013). The reduced import of oil was mainly due to the complexity of a barter system necessitated by international sanctions and used to settle debt between Iran and its trade partners.¹¹ India and China used a bartering system to pay back for their oil imports from Iran; for the Iranian market, this meant increasing imports of Chinese and Indian goods and services, which have been detrimental to Iran's non-oil economic sector. This combined with the plummeting national currency have put tremendous pressure on Iran's manufacturers, leading to bankruptcies and increasing unemployment, in effect causing resentment even from those who are ardent supporters of the Conservatives. As one observer highlighted:

The flow of cheap China goods and services...has generated a popular resentment against China and backlash from merchants and factories that are exposed to significant competition from China goods (MacAskill, 2010).

Strains on Indo-Iranian relations were also noticeable as the Chabahar project faced persistent delays. In 2011, US pressure forced India to pull out of the Iran-Pakistan pipeline project that had started in 1994. India was also forced to ban trade in all goods and technology associated with the development of nuclear programme.

By the time of Iran's presidential elections in 2013, the country faced huge difficulties with decreasing oil exports, which had reduced from 2 million barrels a day to less than 1.5 million, and high unemployment, which had reached 4 million, a rate of 39 per cent amongst 14-29 year olds (Mohamadi, 2013). In September 2013, Iran's economy was facing "stagflation" with growth at -5% and inflation at 44% (Erdbrink & Gladstone, 2013).

Iran's domestic economy was facing tremendous pressure, with global sanctions biting hard despite Tehran's initial refusal to acknowledge their impact. Young educated Iranians¹² expressed their resentment of the government's policies.¹³ Despite the severe control over society, Iranian youth used global communications through blogging and social media to express their desire for change.¹⁴ In addition to this, Iran was also facing the challenge of dealing with the Syrian civil war and continuing sectarianism in Iraq, which were threatening not just its regional role but its wider ambitions in the IOR. It became clear that Ahmadinejad's approach to balance the US by seeking closer ties with non-Western powers in the IOR did not work. In fact, Iran's entire credibility as a meaningful actor in the region was under threat.

This was gradually opening a cleavage amongst the ruling establishment. Pragmatists, Reformists and even some of the Conservatives were working hard to strike a deal to establish a middle ground between the prevailing factions. The Pragmatists, such as Rafsanjani and Rouhani, expressed their dis-satisfaction publicly by labelling Ahmadinejad's policies as self-destructive, paranoid and working against Iran's national interest.

Moderate Government: A U-Turn in Foreign Policy?

After 8 years of Conservative rule, Rouhani, the only candidate from the Pragmatist faction won the 2013 election in the first round, gaining 50.7% of total votes. The Islamic Republic headed by Rouhani as president had a new consensus over a change in approach namely to work towards a converging foreign policy strategy with the West was seen as a solution to reduce the impact of sanctions on Iran. Although

Iran's president lacks the sole power constitutionally to set Iran's foreign policy direction (as the Supreme Leader has to agree with it) the country's economic condition left no room to manoeuvre. The pressure from below combined with dissatisfaction amongst the ruling elites, bazaaris and technocrats, became vital in the U-turn, which saw even Khamenei to be on board.

Parallel to this development, Khamenei appointed Ali Shamkhani who served as the commander of the IRGC, a moderate and close ally of Rafsanjani as well as Minister of Defence under Khatami, as one of his two representatives to Iran's Supreme National Security Council (SCNS). The responsibility of Iran's nuclear negotiations was passed from SCNS to the foreign ministry, now under Javad Zarif. The former nuclear negotiator representative of SCNS, Saeed Jalili, joined the Expediency Council¹⁵, chaired by Rafsanjani. It seemed that the Pragmatist faction was given key roles in Iran's political system to direct Iran down a difficult path within the region and beyond. The traditional Conservative confrontation towards the West represented by Ahmadinejad and Jalili now appears to now be side-lined. Rouhani called for reducing tension with the West immediately.

Against the backdrop of the protest movement in 2009 presidential elections and the tumult of the Arab spring, the perception of Iran as the sole Islamic revolutionary country suffered a decline in the Muslim world. Iran's competitors in the region, Turkey and Saudi Arabia, have been working hard to make their impact felt in Egypt, Syria, Iraq, Afghanistan and Pakistan. Rouhani's moderate approach became vital if Iran wanted to keep pace with them. During his election, he claimed that he will be "improving and expanding relations with neighbouring countries at all levels...Iran shares borders with fifteen countries over land and sea. All of them are important for us" (Pedram, 2013).

Immediately after his election, Rouhani led his government to negotiate directly with the Western leaders. Rouhani and Rafsanjani have sent a number of positive signals to remove any anxiety that the regional countries may harbour, including sending Iran's Foreign Minister to the UAE, Kuwait and Turkey to give them further assurance not just about their involvement in Syria but their influence on Shia population in Saudi Arabia, Kuwait, Bahrain and Afghanistan (IRNA, 2013).

The U-turn from Iran was not an accident and it could be argued that the Western countries had merely waited until after Rouhani became president to implement changes.¹⁶ Just prior to the presidential election in June 2013, Rafsanjani had prepared the ground when he stated that:

Iran's current approach, not having ties with the US cannot continue. The US is a world leading superpower. If we can negotiate with Russia, China and Europe, we can certainly hold talks with them too (Fars News, 2014)

Washington entered into negotiations with Tehran even though the sanctions were working, but a stable Middle East and a possible good relationship with Iran and the world would allow the US to concentrate on Asia. Since starting his second term in January 2013, Obama has suggested that a central part of his strategy would be increasing the US' presence in the Asian Pacific region. To a large degree, the US' change of focus towards China and its policies is to demonstrate that Washington is prioritising Beijing as its main global contender.

With a new government installed in Iran, the US showed some positive signs of a possible move towards an important geopolitical shift. The Geneva Agreement¹⁷ in November 2013 hoped to solve issues relating to the Iranian nuclear programme, even though the US has maintained pressure on Iran by imposing fresh sanctions on 19 Iranian companies and individuals; according to the Geneva deal no more nuclear-related sanctions would be imposed for an interim period of six-months, which has been extended for an additional 4-months since.

Refusing to be provoked, Rouhani has continued the positive theme, committing to reduce Tehran's isolation when pointing out that Iran attempts "to avoid new burdens on relations between Iran and the US and also to remove the tensions that we have inherited" (Mehr News Agency, 2014).

The US for its part has promised to offer Tehran access to \$12 billion of its frozen funds if Iran follows the necessary steps lined out in the Geneva Agreement to cut down its nuclear programme. In addition, Iran and Britain have also resumed their diplomatic relations in February 2014. The US and European countries hope the diplomatic reconciliation may also encourage Iran to take a different approach to the Syria situation.

The deadline for removal of US troops from Afghanistan falls in 2014 and Washington may yet again need to include Iran in security cooperation not just there but in Central Asia too. With the rapidly changing situation in Iraq, the rise of the Islamic State of Iraq and the Levant (ISIS) and continuous sectarianism there, the US and Iran have a convergence of interests in preventing a collapse of the Iraqi state. The important issue here is whether the US could trust Nouri al-Maliki's government, an important Iranian ally, as the solution for the future stability of the region. .

The stability of the region and the new US approach to it was clearly set out by Susan Rice, Obama's National Security Advisor who pointed out that the US, "can't just be consumed 24/7 by one region, important as it is" (Lanler, 2013). The US' reconciliation with Iran would mean the possibility of balancing power between the countries in the region. This could be in three fundamental areas: Iranian power against Arab states, the Islamic Republic's energy against Saudi Arabia and Russia, and lastly, Shia against Sunni. As Lanler (2013) suggests, this could mean a change in the US role in

the Middle East from pre-eminent power to that of an offshore balancer - a role in the Middle East similar to that witnessed before the Iranian revolution of 1979. As Obama expressed in his speech to the UN General Assembly in September 2013, this does not mean that the US military would not defend American interests from any disruption to the flow of energy, or to prevent Iran from securing nuclear weapons.

A stable region and a better relationship with Iran and the world would allow the US to concentrate on Asia. Since starting his second term in January 2013, Obama has suggested that a central part of his strategy is going to be Asia, notably the increasing US presence in the Asian Pacific region.

As the US is planning to remove its troops from Afghanistan, the Rouhani's government's convergence approach to the West could potentially strengthen Iran's position in the IOR, especially ensuring the security of the area. The pressure from the US on the IOR countries to toe its line has limited Iran's commercial and political influence. Rouhani hopes his strategies of energy diplomacy, increasing energy exports to the IOR, removing the barter system, getting sanctions reduced and removed and finally involvement of international oil companies to assist Iran's restructuring oil fields and refineries. This would help to secure Iran's economic interests by having a maritime presence would certainly show the importance of Iran to the region. With the crisis in Ukraine, as continuing conflict between Russia and the West have consequences on energy supplies and the price. This would encouraged European countries to diversify their gas supply resources, potentially bringing Iran closer to Europe, which is something the US does not want at the moment. To achieve this, Rouhani's government has been working hard to penetrate into and remain present in the European, and IOR's energy market. Iran hopes it can retain a share of that market while working on its geopolitical position to consolidate its role as a regional energy hub.

The geopolitical realities of the region, especially with the rise of the ISIS in Iraq and the shift in the US strategies are also important for this new direction. This however, does not mean a total break from existing policies within Iran or in the US' foreign policy in the region. Although there have been some shifts in the presentation of the government's agenda, they represent a remodelling in order to bring calm to the market and sort out Iran's ailing economic problems; in effect, it is expected that Iran would continue to work closely with China, India and Russia in order to avert the continuing the US threat.

It is not only Iran that has changed its approach, but for the first time, there is a move from the US under Obama's presidency for more accommodative relations. Washington has expressed a greater flexibility to engage with Iran while continuing to keep the pressure of sanctions in place. In fact, it may take a long time to reduce the mistrust between the two sides and to reconcile their differences. Rouhani's gov-

ernment has limited choice, as a change in foreign policy was inevitable considering the pressure on Iran's economy as a result of the sanctions. This was also important to continue to play an active role in the Persian Gulf and IOR.

While easing back sanctions would help Iran to increase its energy production and the supply of energy, especially to the IOR, this could also increase competition between Iran and Russia as the top two gas producers in the world. Western countries would approve of this as it would ensure flexibility in the supply market and lessen the threat that Russia may pose to exports of energy to Europe.

The changing approach by Iran would allow India and China to balance their relations with the GCC, Israel and the US. Hence, it would relieve Iran, India and China from trying to manage their economic and political cooperation without being under the shadow of Western sanctions. Although Iran lost its place to Iraq as the second largest supplier of oil to India, it is not clear whether this would be sustainable considering the current developments in Iraq.

For Iran, India is a potential means to find a way around the IOR plus an important source of high-technology inputs, thereby helping Iran in the development of information technology. Rouhani hopes with a new approach, the major Indian client, The Mangalore Refinery and Petrochemicals (MRPL) will resume work after terminating its activities as a result of sanctions. Another project concerns Jawaharlal Nehru Port, South of Mumbai, one of the busiest container ports, and Kandla Port in Western India's Gujarat state, that could become the loading facilities to Chabahar.

A positive development in relations between Tehran and the West would provide further opportunities for Iran in the IOR: to expand its influence further afield with countries such as Sri Lanka. Iran was exporting much of Sri Lanka's crude oil needs, which provided for Sri Lanka's electricity supply. However, in 2013, the US forced Sri Lanka to reduce its crude oil imports – although this was always denied (Berlin Centre for Caspian Region Studies, 2013)

Iran wishes to consolidate its relations with the other countries in the IOR that were constrained during Ahmadinejad's period. Iranians also hope to build greater bilateral and regional co-operation between Tehran and Jakarta by taking initiatives through the Group of Eight Developing Islamic Countries, which includes Indonesia.

Furthermore, Rouhani could potentially be an important and credible actor in combating piracy in the Gulf of Aden and expand Iran's naval presence. In fact, the International Maritime Organisation praised Iran's anti-piracy patrol in the region in 2009 for its efforts against piracy. In addition to this, Iran offered assistance to Djibouti to help combat piracy in the Djibouti coast. As a result, Iran and Djibouti expanded their co-operation in logistics and the IRGC assisted in maintenance and training to combat terrorism and piracy. In an area with vital geo-strategic importance in the Horn of Africa, where the US has a significant presence, Iran could play an equally

important role.

The key to unlock Iran's potential for playing an effective role within the IOR countries largely depends on the fate of US-Iranian relations. If the conflict with the US comes to some kind of positive resolution, Iran would be able to play an effective role in the IOR, not just to provide energy but engage in wider economic and political issues.

Iran's new soft-power and influence could cultivate solid relationships by having a naval presence with a high degree of legitimacy. Considering the rapidly increasing developments in the region, Iran's maritime presence there would further add to the IOR's importance for the Islamic Republic in terms of trade and security. However, all this depends on one important factor: the West and in particular the US' willingness to continue its engagement with Iran to reach a positive solution.

Conclusion

Since the 1979 revolution, Iran's strategy towards the West has swung between divergence and convergence, depending on the political faction that has been in power in Iran and the Western policy towards Iran. Given this geopolitical complexity, the change in Iran's foreign policy was necessary considering the kind of pressure that the country was under just before Rouhani coming to power. The change in foreign policy was in many ways similar to the end of Iran/Iraq war, when combination of external pressure, the economic crisis and the difficulty of the bitter internal fighting finally led Khomeini to accept a u-turn in foreign policy. Khomeini accepted UN Resolution, an act he described as having to "drink from the poisoned chalice" (Hiro, 2005: 233). Twenty five years later Rouhani is in charge of navigating the Islamic Republic out of a very difficult path. The success of Rouhani's government, domestically, regionally and internationally depends on the dynamics of recovery in Iran's ailing economy in the coming years. Its relations within the region, namely Central Asia, the GCC and the IOR will play an important role in this process. Rouhani hopes that his pragmatist approach could allow him to build bridges with his neighbouring countries, especially those in Central Asia and the IOR with which Iran shares historical links through language and culture. While Iran's biggest asset is its geopolitical location, its main obstacle to becoming a major credible actor in the region and beyond has been Tehran's tumultuous relations with Washington and the inability and reluctance of any other country to fill the void on and balance out US power. A possible rapprochement with the US has now been resumed, albeit in a very limited manner and a lot more work needs to be done. The Islamic Republic has to choose whether to continue confrontation with the greatest power in the world, as under Ahmadinejad, or to compromise. Rouhani's government hopes that Washington's

change of focus toward the Pacific Ocean would provide Iran with an opportunity to ease sanctions, to bring stability to the region, and to re-emerge as a crucial player in the IOR. It will take a herculean effort for both sides to resolve the nuclear issues; however it does not seem out of reach.

In July 2014, the P5 + 1 and Iran agreed to extend the nuclear negotiations for another four months. This would be an opportunity for Iran to win the trust of the West. Rouhani also made an effort to strengthen Iran's relationship with the regional countries including those in the GCC and India. The sticking points are: the uncertain future of Syria and Iraq, competitive relations with Saudi Arabia; and a distrust of Gulf monarchies vis-a-vis Iranian intentions. Any resolution to the Syrian and Iraqi civil wars would certainly support the security of the Persian Gulf and beyond. Of course it is too ambitious to attempt to solve all the problems that the region is facing now but the nuclear negotiations between Iran and the West have raised some hope and removed the threat of yet another war in a very fragile region. This would certainly contribute to the stability not just of the Middle East but also of Central Asia, including the IOR.

However, the new balance of power strategy does not in any way mean Washington will be removing all its troops from the region. On the contrary, the US will continue its military presence in the Persian Gulf, and the Middle East for the foreseeable future, albeit, on a smaller scale, as the region is crucial to the global energy market. This new US strategy is not unprecedented as it was practiced before the Iranian revolution of 1979 and there is no guarantee that it will not backfire again as it did then. The US hopes that bringing Iran under its orbit and re-establishing its economic trade with the world could force Tehran to accept Washington's terms of negotiation but there are stumbling blocks that could bring the discussions to a halt. Hard-line politicians in the US, Saudi Arabia, Israel and the Iranian Conservatives have already been causing difficulties, though without success so far.

The Conservatives in Iran are waiting to pounce on any concessions Rouhani makes and step in to stop a final agreement. Similarly, in the US some Senators such as, Republican Bob Corker and Democrat Chuck Schumer, have been threatening to propose new sanctions in order to derail the negotiations. So far, the situation has been directed towards achieving a rational consensus than provoking conflict between the two states. Rouhani would be able to maintain his approach and sideline the Conservatives if he is able to hold on to the support that he received from the ordinary Iranian citizens. However, this requires some evidence that economic and political improvements are on the way for the middle and working classes. Notably, this would be impossible if the full sanctions remain in place.

Overall, the changes in the strategies of both sides should be viewed as an opportunity for Iran, the Persian Gulf and IOR in order to bring stability and prosperity to a

highly volatile area of the world. The recent political turmoil in the Middle East, the rise of the ISIS in the Middle East, makes the collaboration even more vital.

Domestic political and economic factors, various crises in the region, and the inability and reluctance of alternative global powers to challenge the US, have all forced Iran to seek an accommodative approach toward the West. Iran's desire to become a major and credible international actor in the IOR requires a mix of strategic compromise and avoidance of language of confrontation with the West, improving relations with the sceptical neighbours, and deepening of relations with the non-Western powers in the IOR. For these to be achieved, Iran under Rouhani has to come up with a sustainable approach to ameliorate Western concerns and get international sanctions reduced and removed. This will enable it to articulate its other foreign policy goal and, in so doing, strengthen a significantly weakened economy. Hence, this demonstrates the symbiotic relationship between political economy at the local level and foreign policy identity at the international level.

Endnotes

- 1 The Conservative faction is broadly divided into different groups. The most proactive group is *Jebhe-ye Paydari* (Steadfast Front) whose spiritual leader is Ayatollah Mohammad Taghi Mesbah Yazdi.
- 2 Following Iranian revolution, governments and multinational organisations forced on Iran. Led by the US this was expanded in 1995 to include firms dealing with the government of Iran. When Iran refused to suspend uranium the in 2006 the UN security Council passed Resolution 1696 to impose sanctions on investment in energy and petrochemical industry, banking and insurance (Ouahes & Smith, 2013).
- 3 This was not a new idea; it had already been put forward by Iran's former Prime Minister (1951-53). He pursued a policy of 'negative' balance between east and West, in order to maintain pressure on the rival powers (Abrahamian, 1982).
- 4 An Intergovernmental International Islamic organisation is an intergovernmental organisation founded in 1969, which now has 57 members, see <http://www.oic-oci.org/>
- 5 Inter-governmental organisation founded in 1965, see http://www.opec.org/opec_web/en/
- 6 The Economic Cooperation Organization was formed in 1985 by Iran, Pakistan and Turkey to promote economic, technical and cultural cooperation amongst the member states.
- 7 Founded in Shanghai in 1996, an inter-governmental mutual security organisation. Members include China, Kazakhstan, Kyrgyzstan, Russia and Uzbekistan (joined in 2001). Iran, India, Pakistan and Mongolia are observers with the intention to join at some point in the future.
- 8 Inter-governmental forum proposed by Kazakhstan's president in 1992 to promote peace, security and stability in Asia. The organisation's members include India, Iran, China and many Asian countries.
- 9 It is believed that Saudi Arabia provided US \$36 billion towards the cost of the war.
- 10 The term used by George Bush in his address to the State of the Union in 2002 to describe Iran, Iraq and North Korea's support of terrorism and possession of weapons of mass destruction.
- 11 Due to sanction Iran's bank could not receive its income from the oil that exported to India and instead they were either given goods and services.
- 12 This is in a country with a population of 77 million, 70% aged less than 35 years and 80% living in the urban sector. The literacy rate has rocketed to 90% since 1979, with 60% of young Iranians attending college or university, 60% of them female. On top of this amongst 61 developing countries, and according to some estimates, almost 150,000 young Iranians leaving the country annually, 25 per cent of whom have completed their secondary education, see Harrison, 2007.
- 13 The domestic economic crisis have had major ideological implications: the average age for marriage has increased to 30 years old, and in 2011, Iran had the 10th highest rate of divorces (16.3%) in the world. Attendance of young Iranians at Friday prayers has fallen to a mere 2%.

- 14 In 2013, 68 million Iranians have access to mobile phones and 60% of the population watch broadcasts from abroad via illegal satellite dishes
- 15 The Expediency Council, Majma Tashkise Maslahate Nezam, established in 1988 to mediate disputes between the Guardian Council and parliament. Retrieved June 2014 from <http://www.maslehat.ir>.
- 16 According to Arshad Mohammed and Parisa Hafezi Washington and Tehran have been negotiating for over a year to smoothen their differences. Retrieved December 2014 from http://www.reuters.com/article/2013/11/24/us-iran-nuclear-bilateral-idUSBRE9AN0FB20131124_17/12/2014.
- 17 The interim 6 months agreement between Iran and 5 + 1: US, Britain, France, Russia, China required Iran to freeze its nuclear enrichment in exchange for limited targeted relief from international sanctions.

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