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Behçet Andaç AKÇAKAYALI

115620025

Assoc. Prof. Serda Selin ÖZTÜRK

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FİNANSALLAŞMANIN TÜRKİYE'DE GELİR EŞİTSİZLİĞİNE ETKİLERİ

Behçet Andaç Akçakayalı

115620025

Tez Danışmanı: Doç. Dr. Serda Selin Öztürk

İstanbul Bilgi Üniversitesi

Jüri Üyesi: Dr. Öğr. Üyesi Fatma Didin Sönmez

İstanbul Bilgi Üniversitesi

Jüri Üyesi: Doç. Dr. Ender Demir

İstanbul Medeniyet Üniversitesi

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ABBREVIATIONS

ATM: Automated Teller Machine

BRSA: Banking Regulation and Supervision Agency

CPI: Consumer Price Index

EU: European Union

EUR: Euro Currency

FIRE: Finance, Insurance and Real Estate

GDP: Gross Domestic Product

GNP: Gross National Product

GSYİH: Gayri Safi Yurtiçi Hasıla

IMF: International Monetary Fund

ISE: Istanbul Stock Exchange

OECD: Organization for Economic Cooperation and Development

PPI: Producer Price Index

SDIF: Saving Deposits Insurance Fund

TL: Turkish Lira

US: United States

USD: United States Dollar

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ABSTRACT

This thesis, which aims to analyze the effects of financialization to the income inequality in Turkey between 2002 and 2017, is composed of three main parts. First chapter of this thesis aims to present the concept of financialization in a broad sense to cover the literature review while the second part mostly focuses upon the short history of Turkey's economic development starting from the 1980s up to today and highlights the points where the Turkey's economy has started to financialized. Finally the last chapter examines the data and methodology that is used within the context of this thesis.

In order to analyze the effects of financialization to the income inequality in Turkey, on the one hand the natural logarithm of GINI coefficient has been used as the dependent variable where on the other hand the explanatory variables such as female labour force i.e. the percentage of women in the labour force, share of value added to GDP by finance, insurance and real estate sector, government spending as share of GDP, imports as percentage of GDP, minimum gross wage divided by GDP and the unemployment rate have been adopted. Unit root test has been made at the first hand concerning the stationarity issue. For this reason natural logarithms of all of the explanatory variables have been taken with the differences and have been made stationary. After that, Augmented Dickey Fuller Test has been applied into the data set.

Key Words: Financialization; Income Inequality; Households; Financial Markets; Financial Deregulations

ÖZET

2002 ve 2017 arasında finansallaşmanın gelir eşitsizliğine etkilerini analiz etmeyi amaçlayan bu tez üç ana bölümden oluşmaktadır. Bu tezin ilk bölümü literatür taramasını kaplayacak şekilde finansallaşma kavramını geniş ölçüde sunmayı amaçlarken ikinci bölümü ağırlıklı olarak 1980'lerden başlayıp bugüne dek Türkiye'nin iktisadi gelişiminin kısa tarihine odaklanmakta ve Türkiye ekonomisinin finansallaştığı noktaları vurgulamaktadır. Nihayetinde, üçüncü bölüm de bu tez bağlamında kullanılan veri ve yöntemi incelemektedir.

Finansallaşmanın Türkiye'de gelir eşitsizliğine etkilerini analiz etmek için bir yandan GİNİ katsayısının doğal logaritması bağımlı değişken olarak kullanılırken öte yandan da kadın iş gücü yani iş gücüne katılan kadınların oranı, finans, sigorta ve emlak sektörlerince GSYİH'ya eklenen değer oranı, GYSİH'daki hükümet harcamalarının payı, ihracatın GSYİH'daki payı, GSYİH'nın brüt asgari ücrete bölümü ve işsizlik oranı gibi değişkenler de açıklayıcı değişken olarak kabul edilmiştir. Durağınlık konusuyla ilgili olarak önce birim kök test uygulanmıştır. Bu sebeple bütün değişkenlerin doğal logaritmaları ve farkları alınarak durağan hale getirilmiştir. Akabinde, Augmented Dickey Fuller testi kullanılan veri setine uygulanmıştır.

Anahtar Sözcükler: Finansallaşma; Gelir Eşitsizliği; Hanehalkı; Finansal Piyasalar; Finansal Serbestleşme

INTRODUCTION

Since the global economic crisis of 2008, the term financialization has become one of the obvious and leading keywords that designates the economy literature. It gradually begun in 1980s but it was especially after this crisis that the economic dynamics of world have started to change and shifted towards the financial area drastically. As financialization has become an indispensable part of economic activity, it started to yoke households' income and has altered the channels of profit.

This thesis investigates the income inequality in Turkey between the years 2002 and 2017 which has reached its utmost degree over the years partially because of the ensuing economic crisis which did not allow Turkey's economy to recuperate and to make a great leap forward.

In the below chapters of this thesis, first of all a brief introduction was made about the financialization and its origins starting from Hilferding. Secondly, the literature review on financialization has been given a place with the latest approaches and thoughts on the subject. In the third chapter the evolution of Turkey's economy since 1980s have been elaborated with the decisions taken and laws enacted which had certain impacts upon the progress and sensitivity upon the economy in general. Lastly, in order to be able to measure out the effects of income inequality the natural logarithm of GINI coefficient have been adapted into the econometric model along with the other parameters such as female labor force, share of government spendings in GDP, unemployment rate, minimum gross wage divided by GDP, imports as percentage of GDP and the value added by finance, insurance and real estate sector to GDP.

1. BRIEF INTRODUCTION TO FINANCIALIZATION

1.1. First Steps Towards the Financialization: Finance Capital

Austrian economist and thinker Rudolf Hilferding is usually considered as one of the theoreticians who pointed out the growing importance of finance capital towards the end of 19th century in his famous book called *Finance Capital* published in 1910. The way that the finance capital has come to exist according to Hilferding is profoundly characterized by the process of concentration which causes the free competition to end and paves the way for banks and industrial capital to establish a solid relationship between each other (Hilferding, 1981: 21). Hilferding's analysis asserts that while the production in general goes up, the monopolistic industrial capital becomes dependent upon the banks in order to afford the investments (Hilferding, 1981: 22).

Within this context, a new kind of capital accumulation has become observable where the financial capital yokes the industrial capital and dissolves the divergence between financial and real markets. This new kind of capital accumulation – which puts the finance on the center of economic activity – led to the substantial changes in markets through eradicating the trade barriers (Lapavitsas, 2011).

According to Hilferding's formulation, the finance capital gradually limits free competition and renders the macro economy to a tool that functions for its own sake since the industrial capital and banking system has been intertwined (Lapavitsas, 2017: 54). Therefore, the long term credits can be found at the bottom of this obligatory relationships (Hilferding, 1981: 91-95).

Another typical characteristic of this process is the rise of cartels and trusts since the production has been concentrated and centralized through the restriction upon competition. Correspondingly, on the one hand the banks promotes the formation of monopolies as a natural result of this process and on the other they merge between each other and forge ahead to the major banking trusts (Hilferding, 1981: 97-98). In other words, banks have become able to hold the general control over this intertwined capital by means of joint stock companies that allow banks to embrace the shareholdings in industrial sector, of intimate personal relations between bank directors and the executive boards of industrial companies and of extensive information that banks hold about the transactions of these industrial firms (Harris, 1991: 199).

This very nature of finance capital enables the profit margins of monopolistic foundations to rise up and creates the ever expanding economic area (Hilferding, 1981: 412). As a result of which the relations between core and periphery countries has changed since the core countries, US being in the first place, have utilised their financial outcomes in order to dominate the global exchange markets (Harvey, 2003: 54).

1.2. International Environment Prior to the Financialization

The world has experienced an unexpected economic growth between the years 1950 and 1970 which was generally known as the golden years of world economy. Prevailing currency system in that period had given a great impetus to this monetary enlargement. Through the agency of Bretton Woods, fixed exchange rate system had been introduced where almost all foreign exchanges had been tied to US Dollar in exactly the same way US Dollar had also been tied up to gold (Uçak, 2015: 145). In other words, Bretton Woods was a fixed exchange rate regime which keeps the mobilization of capital under control. Following the collapse of Bretton Woods, uncontrolled capital movements have become to be seen more common (Went, 2001: 83). Therefore, banks and firms assume the right to invest freely in abroad countries without being bound to any limit and government controls via the financial deregulations (Kozanoğlu, Gür, & Özden, 2015: 71).

Right after this period of golden age, the rates of profit had begun to fall mainly in the advanced capitalist countries. Besides, there was also a financial expansion arised from the rise in oil prices and went more beyond the existing borders of financial markets. This being the case it was become more evident to deregulate the financial markets at the international level in order to compensate the fall in the rate of profits and let the international financial capital mobilize more quickly (Soydan, 2013: 153). Therefore, the globalization of financial system leads to the disappearance of the borders in national financial markets, abolition of control and restrictions upon the markets and growth in the number of international capital flows (Afşar & Afşar, 2010: 48). Hence, it can be said that today's finance capital could be described as an international one instead of a national one because the national financial markets have become more integrated to each other since the 1980s. Additionally, aforementioned deregulations along with the modernization in financial assets have made critical contributions to these process since there was not any swap and option transactions in those years (Went, 2001: 33).

As the financial activities become an indispensable part of our daily lives, advancements of financial activities in areas such as housing credits, pension systems and consumption paved the way for the formation of new kinds of value forms (Painceira, 2011) which lead to a process where the consumption can be postponed or in other words the future incomes can also be consumed via the credit cards and loans etc. Thus, as the total sum of financial revenues increase on the one hand, priorities of capital accumulation went far away from the economic activities and become close to the short termed and high yielded financial assets on the other (BSB, 2009: 40). Additionally, while the income inequality and flexibility in labour markets have become more observable in this context, investments and good supplies shaped by the profit expectations in the prior periods can likely cause the overproduction crises (Pasquale, 2012: 36).

Financial transactions, profits, capital accumulation and financial assets have increased in a way that cannot be compared with real sector's capacity towards the 1980s. In this process, while the revenues gained via the financial activities was increasing rapidly, the tendency of borrowing with respect to the households, firms and public sector has also increased (Yılmaz & Uçak, 2012: 68-69).

1.3. The Concept of Financialization

In today's economies, money is created through the interaction between banks and firms most of the time. This situation would arise the question to whom the loans shall be given which, of course, is hugely depend upon the advancements in financial markets. In general, financial system is a quite complex structure which consists of different institutions such as stock markets, banks, insurance companies, investment funds, investments banks, leasing and factoring companies offering transactions like stocks, bonds, derivatives, futures, foreign exchange trades etc. In the view of such information, it could be said that as the share of manufacturing industry goes down within the gross national product, a serious increase is observable in the financial sector and in the total value of assets in the financial markets (Koç, 2013: 1).

Although there is not an agreed definition of financialization, various definitions made by the scholars and/or economists in order to make its definition clear for us to understand it wholly. Gerald A. Epstein, for example, defines financialization as the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies (Epstein, 2005: 3). However, there are other scholars

like Greta R. Krippner who sees the financialization as a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production (Krippner, 2005: 181).

Paul Sweezy, also calls the financialization as a way of capital accumulation which has become a driving power for economic boost since the recession that occurred in US between the years 1974-1975 (Sweezy, 1997: 3). David Harvey, too, evaluates the financialization as a shift to neoliberal accumulation process evolved from the Fordist accumulation process (Harvey, 2005: 157).

Engelbert Stockhammer, on the other hand, approaches financialization in a sense to embrace couple of points such as the deregulation of financial markets, formation of new instruments, liberalization of international capital movements, instability of foreign exchange rates, increase in the loan supply and the integration of non financial corporations with the financial markets (Stockhammer, 2004: 721).

Financialization, according to John Smith, can be described as the growing share of insurance, real estate and finance sectors within GDPs of developed countries (Smith, 2012: 20).

Manuel B. Aalbers, on the other hand, sees the financialization as a transformation of capital movements occurring in markets. He assumes that the real estate sector is the main locomotive of financialization. Simply because the financialization of real estates paves the way for both for houses and the owners to become much more exploitable in the financial aspects. He continues to assert that the securitization of mortgage credits, the usage of credit ratings and risk based pricing models have come into existence in the wake of this view. Therefore, it can be said that the mortgage market have evolved a structure which allows to invest in global scale rather than a structure easing the credit needs of homeowners (Aalbers, 2008: 148).

Costas Lapavistas evaluates financialization with the changes in the role of banks. Unlike Hilferding's definition, Lapavistas draws attention to the autonomy of financial sector (Lapavistas, 2017: 66-70). That is to say, banks now aims to give credits to individuals rather than the firms so that instead of earning interest through giving credits, they tend towards the fees and commissions by being a mediator in the open financial markets. As the households now become a part of this process, Lapavistas draws attentions to the value which was

directly extracted from the wages which according to him constitutes an important volume of the financial profits and he calls this situation financial expropriation (Lapavitsas, 2017: 21).

It should be noted that the concept of financialization is also associated with the debates over crisis. For example, Greg Albo, Sam Gindin and Leo Panitch elaborate financialization within the framework of internationalization of capital. They claim that the financialization subordinates the governments because the law of value and the rule of money are constituted through states, so that even the most powerful state is structured so as to protect capitalist interest and property (Albo, Gindin, & Panitch, 2010: 40-41).

Juan Pablo Paincheira also puts emphasis on the process that the developing countries have undergone. According to him, with the international capital flow, the developing countries are experiencing some crises which would result in financial deficits or volatility in foreign currencies. In order to recover this situation, the developing countries would try to protect themselves in order to compensate their losses in foreign currencies. Therefore, in order to be involved in the global financial markets more actively their international reserves would rise. However, as a result of this, capital transfers from the developing countries to developed countries would increase and this situation would create a great increase in public debts (Painceira, 2011).

Özgür Orhangazi makes crucial remarks upon the another characteristics of financialization by focusing on the financialization of non financial firms. Basing his arguments and analysis on the US economy, he has investigated the impact of financialization upon the capital accumulation of non financial firms. He describes the financialization as a process through which the non financial firms starts to undertake financial activities after the recession crises happened in 1970s which paved the way for the profit rates to decrease. With the rise in the financial assets belonging to the non financial firms, the financial sector has become much more consolidated and there has become much more investment opportunities (Orhangazi, 2008: 864).

2. LITERATURE REVIEW

2.1. How Households Were Involved in the Process of Financialization?

Under the light of above mentioned facts, it can be asserted that the phenomenon of financialization stagnates the manufacturing sector and creates its own bubbles. The two leading Marxist thinkers of the time, namely, Harry Magdoff and Paul Sweezy who came together around the journal called Monthly Review discussed the issue concerning US economy. In their book called Stagnation and Financial Explosion, they point out the debt explosion which is generated by the financial system (Sweezy & Magdoff, 1987: 20-21). They concluded that the debts in general were shifted to households and as a result a severe recession happens in economy (Sweezy & Magdoff, 1987: 22).

This situation makes the welfare of households become open to the speculative activities and thus renders the economies to be quite sensitive and insubstantial. John Bellamy Foster, another well-known Marxist scholar of our time, thus, stressed out that financialization has brought forth a new model of accumulation since the main principles in saving and growing have changed a lot (Foster, 2007: 11).

Costas Lapavitsas also mentions this new model of accumulation introduced by the financialization by looking at the origins of financialization in this capital accumulation process and he points out that banks and their changing roles have contributed to the process too. According to him, there are three steps through which financialization characterizes itself. Firstly, big scale firms have become less dependent upon the banks and have gained ability to finance their activities. Secondly, banks have become much more related with the households since the firms began to finance themselves. And lastly, the savings and revenues of households become much more involved in the financial operations, in other words their savings and revenues have become a tool which are used by the banks in order to gain profit (Lapavitsas, 2011: 611-612).

In this context, below Table 1 shows the increasing trend in total household debts as a percentage of net disposable income.

LOCATION	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Australia	149.3	159.8	170.4	181.9	187.2	190.7	185.6	191.6	190.4	189.4	190.1	191.2	194.5	203.0	210.5	
Austria	78.9	79.1	81.2	87.2	88.6	88.4	89.8	90.1	93.7	93.3	91.0	90.8	90.5	92.2	92.5	92.2
Belgium	69.0	71.0	75.4	80.8	84.4	88.4	90.6	92.1	97.2	103.6	105.0	107.1	111.7	115.1	116.7	
Brazil								34.7	43.0	48.5	53.3	56.4	55.5	54.6		
Canada	119.1	124.6	130.6	139.6	144.1	152.4	157.4	164.8	166.5	169.3	170.0	169.6	171.9	173.4	178.4	178.1
Chile		36.7	43.0	45.6	49.1	57.0	58.2	58.7	59.1	58.6	58.2	60.1	63.1	66.7		
Czech Republic	27.1	29.4	34.2	39.5	43.7	53.2	59.1	60.6	62.0	64.6	65.8	68.3	66.7	67.2	68.8	65.7
Denmark	242.5	247.9	261.5	281.7	299.3	324.6	339.8	339.8	326.2	319.9	314.2	305.8	305.8	292.5	285.8	279.9
Estonia	32.7	41.7	53.3	70.3	93.3	104.3	100.8	108.3	106.2	92.6	85.2	81.7	79.9	79.9	80.9	80.2
Finland	75.6	79.9	88.6	99.2	109.4	114.7	117.2	117.5	119.6	122.7	124.6	124.7	125.8	129.6	135.2	138.9
France	81.0	85.1	86.9	92.3	97.3	101.1	102.8	109.4	112.8	113.5	108.3	110.3	111.2	115.4	117.7	119.7
Germany	113.6	112.0	110.4	108.1	105.7	102.6	99.4	100.3	98.3	96.5	95.2	94.6	93.7	93.3	93.3	93.3
Greece	43.8	47.8	55.5	67.7	74.5	83.0	87.2	88.0	105.5	111.8	119.9	122.6	116.5	115.2	111.6	
Hungary	29.5	38.0	42.8	48.5	54.7	63.1	76.7	77.6	81.5	74.7	64.2	58.2	55.0	48.9	45.8	43.0
Iceland		215.9											226.5			
Ireland	126.4	146.5	169.2	199.7	223.4	234.6	230.8	240.6	233.9	236.9	220.0	214.8	202.5	184.8	170.5	
Italy	58.0	61.2	65.0	70.0	74.9	79.0	80.4	85.3	89.2	88.7	90.7	89.4	88.4	87.2	86.9	86.8
Japan	115.3	114.8	112.9	110.3	108.1	107.5	108.5	106.1	106.7	102.7	102.8	105.3	106.5	107.7	108.8	
Korea							143.3	147.7	152.4	157.9	159.4	160.2	162.9	169.0	180.4	185.9
Latvia	18.4	24.0	36.9	55.1	75.2	86.6	77.8	85.9	87.2	84.9	71.4	64.0	56.2	50.9	49.1	48.0
Lithuania	5.4	15.6	14.5	25.3	37.7	52.2	55.6	54.0	52.0	47.3	47.0	44.2	45.3	49.2	47.7	44.5
Luxembourg	93.3	96.8	102.5	111.9	121.0	138.7	142.5	145.8	150.6	158.3	161.0	161.6	169.1	171.7	184.4	
Netherlands	204.9	223.3	232.6	250.5	252.6	258.0	266.4	279.0	283.7	277.1	275.2	268.5	253.0	250.6	246.1	242.8
New Zealand						118.7	128.8	123.8	120.6	116.0	116.9	117.7	121.6	121.6		
Norway	147.8	151.4	161.0	166.7	198.5	207.2	207.3	206.4	211.9	216.3	220.3	222.1	224.6	220.5	230.3	235.6
Poland	22.3	19.7	21.6	25.1	31.3	39.4	51.5	52.7	57.2	60.5	58.4	60.1	61.7	63.8	63.5	
Portugal	122.7	123.6	126.8	135.9	140.6	145.7	148.9	151.4	154.4	155.1	155.8	151.2	150.8	143.0	138.4	136.3
Russia										22.7	26.7	30.4	30.7	30.4		
Slovak Republic	24.0	27.5	25.7	29.7	32.6	38.9	42.0	41.0	44.9	50.5	55.3	59.5	64.6	68.4	74.0	78.5
Slovenia	33.7	35.6	36.1	40.4	45.0	52.4	53.8	56.6	59.5	58.3	60.4	58.7	57.6	56.9	56.4	56.7
Spain	94.7	102.8	114.2	128.7	144.8	154.8	150.7	145.6	148.5	142.8	141.5	134.9	128.0	121.7	118.1	116.2
Sweden	122.2	128.7	138.0	147.2	153.8	157.7	157.7	163.1	168.8	167.9	166.8	168.3	170.5	176.4	181.2	186.3
Switzerland	177.1	186.5	188.9	192.1	191.8	187.2	185.7	189.5	195.8	200.0	203.1	204.6	207.9	213.2	212.8	
United Kingdom	123.5	135.3	145.5	150.6	160.6	165.2	162.6	156.6	154.8	154.0	147.7	143.5	144.5	141.2	146.0	148.9
United States	112.7	120.8	127.6	135.6	140.6	143.8	137.2	136.2	128.5	121.0	114.9	116.0	112.1	109.0	109.3	108.7

Table 1: Household Debt, Total % of net disposable income

Source: OECD (2018), Household debt (indicator). doi: 10.1787/f03b6469-en (Accessed on 02 December 2018)

Location	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Australia	-1.15	-0.41	0.66	-0.27	0.13	1.90	8.27	6.14	7.43	8.06	6.84	7.26	7.47	5.64	4.62	
Austria	9.40	9.65	9.52	11.14	11.62	12.41	12.35	11.40	9.59	7.88	8.86	7.11	7.30	6.76	7.79	6.83
Belgium	11.02	10.56	8.88	8.52	9.16	9.43	10.01	11.31	8.11	6.54	5.69	5.14	4.93	4.37	3.70	
Canada	3.00	1.98	2.57	1.47	2.60	2.15	3.35	4.66	4.39	4.27	4.82	5.26	3.57	4.46	3.28	3.76
Chile		15.40	11.41	11.56	11.99	8.91	9.29	11.65	7.73	8.70	10.27	10.22	10.13	8.85		
China	27.21	30.22	30.57	31.51	34.35	35.80	37.32	37.84	38.99	38.10	38.11	38.46	37.99	37.07		
Costa Rica											0.93	1.61	0.74	1.72		
Czech Republic	6.30	5.70	4.86	6.11	7.83	7.00	6.30	8.54	7.80	6.03	5.99	5.62	6.59	6.84	6.02	
Denmark	1.41	2.18	-1.91	-4.27	-1.53	-3.03	-4.10	0.66	1.84	0.80	0.12	2.34	-2.90	4.65	5.01	6.02
Estonia	-9.49	-9.29	-9.67	-8.57	-10.89	-6.91	1.86	7.19	4.17	4.82	5.06	4.39	6.45	6.79	6.51	7.88
Euro area	8.11	8.13	7.93	6.91	6.58	6.30	6.56	7.79	6.45	5.98	5.62	5.68	5.94	5.79	5.68	5.15
European Union	6.98	6.72	6.27	5.56	5.09	4.90	5.17	7.03	6.09	5.21	4.91	4.97	4.85	4.82	4.64	3.43
Finland	2.71	2.26	3.02	1.00	-0.45	-0.37	-0.24	3.38	3.15	1.32	0.71	1.52	-0.14	-0.49	-1.49	-2.10
France	10.39	9.60	9.65	8.50	9.05	9.43	9.25	10.59	10.45	9.94	10.00	8.52	8.86	8.40	8.18	8.47
Germany	9.63	10.12	10.11	10.10	10.08	10.24	10.48	9.95	9.97	9.56	9.29	8.95	9.49	9.68	9.79	9.88
Greece	-2.01	0.93	1.15	-2.86	-0.05	-1.23	-3.84	-1.13	-6.90	-8.86	-10.92	-16.39	-13.81	-15.61	-16.95	
Hungary	4.40	3.21	6.71	7.99	8.56	4.37	3.66	5.55	6.11	6.99	5.24	7.10	8.04	6.21	8.05	7.35
Ireland	-0.80	-0.07	0.74	1.37	-0.96	-1.47	3.90	8.26	6.25	3.68	6.61	4.87	2.67	2.16	1.93	
Italy	9.63	9.14	9.60	9.09	8.52	8.09	7.83	7.05	4.20	3.71	1.98	3.61	3.93	3.25	3.22	2.30
Japan	4.91	4.40	3.56	3.45	2.51	2.54	2.52	4.00	3.71	3.97	2.71	0.30	-0.35	0.82	2.56	
Korea				6.72	5.47	3.55	3.76	4.83	4.66	3.86	3.90	5.60	7.18			
Latvia	-9.18	-7.11	-7.74	-6.53	-11.51	-10.75	3.27	6.31	-1.26	-15.91	-14.97	-15.27	-12.67	-8.11	-3.99	-5.80
Lithuania			3.71	-0.19	1.09	-8.78	-4.74	1.14	4.13	0.86	-1.96	-1.23	-3.65	-3.43	-3.59	-5.24
Luxembourg	11.71	10.89	11.53	10.69	9.62	11.25	11.56	12.36	15.30	13.05	14.45	14.58	14.60	14.63	14.98	
Mexico		5.10	5.85	5.98	7.75	6.88	7.04	15.07	14.54	15.75	14.65	12.23	14.06	15.15	15.45	
Netherlands	5.13	4.65	4.27	2.49	1.79	1.75	3.63	7.49	5.74	6.64	8.30	8.55	9.86	9.55	9.91	8.99
New Zealand	-6.36	-3.95	-3.54	-5.51	-3.61	0.02	-1.86	1.40	2.34	2.57	0.88	0.39	-1.05	-0.73		
Norway	8.21	8.80	6.93	9.69	-0.42	0.94	3.76	5.22	4.02	5.87	7.12	7.42	8.21	10.34	7.25	6.98
Poland	8.86	7.81	2.73	2.17	2.03	2.05	0.30	2.82	2.38	-1.09	-1.11	-0.07	-0.36	-0.44	1.67	
Portugal	3.86	2.70	2.71	1.79	0.36	-0.78	-1.13	2.73	1.34	-0.92	-0.46	-0.24	-3.33	-3.17	-3.74	-4.10
Russia										4.52	3.97	4.24	4.41	7.66		
Slovak Republic	3.35	1.07	0.34	1.10	0.13	1.90	0.78	2.33	2.36	0.76	0.74	0.21	1.45	3.03	2.96	2.41
Slovenia	8.25	5.83	6.84	9.10	10.81	9.16	9.51	7.48	5.81	5.14	2.13	4.79	4.45	4.29	5.11	6.23
South Africa	1.57	1.06	0.92	0.49	-1.74	-2.27	-1.08	-0.53	-0.83	-1.27	-1.99	-2.31	-2.04	-1.40	-0.21	0.26
Spain	5.24	6.72	5.00	3.23	1.38	-0.96	1.57	7.29	3.69	4.65	2.35	3.84	3.49	2.87	1.83	-0.83
Sweden	8.13	7.25	5.97	5.42	7.15	9.46	11.76	11.05	11.80	12.55	14.38	14.97	16.41	15.04	16.02	15.08
Switzerland	14.02	13.27	12.32	12.80	14.52	16.09	15.43	15.80	15.71	16.77	17.35	17.53	18.88	17.65	18.79	
United Kingdom	5.03	3.69	3.47	2.77	2.40	3.52	2.93	6.37	6.46	4.48	4.54	3.75	3.62	4.55	1.62	-0.91
United States	6.06	5.75	5.35	3.28	4.00	3.88	5.18	6.34	6.78	7.40	9.14	6.61	7.58	7.83	6.91	6.90

Table 2: Household Savings, Total, % of household disposable income, 2002-2017

OECD: OECD (2018), Household savings (indicator). doi: 10.1787/cfc6f499-en (Accessed on 03 December 2018)

Yet again he claims that the share of discontinuos labour (i.e. working from home and/or seasonal/temporary working) in production has increased with the introduction of new technological developments and this situation leads to a unorganized state in the labour market whereas the competition becomes intense. Mergings and acquisitions of large scale corporations, on the other hand, have paved the way for the rise in monopolization. As a natural result of this situation big monopolies have started to exert their authorities in the global trade and production. Therefore, their dependency upon the banking capital have gone downwards. In that point, banks have started to channel their interest towards the households and individuals. This process leads to the financialization of personal income i.e. wages and salaries and also has influences upon the real estate bubbles (Lapavitsas, 2017).

Thomas Palley, who could be mentioned among the prominent economists of our time, also points out this idea. He simply says that the consumers are dragged into the banking and financial system especially with the great use of credit cards, consumer loans, mortgage based securities, swiping machines, ATMs etc. Like in the same way, the firms have turned their faces into the financial activities rather than profiting with production (Palley, 2007: 7).

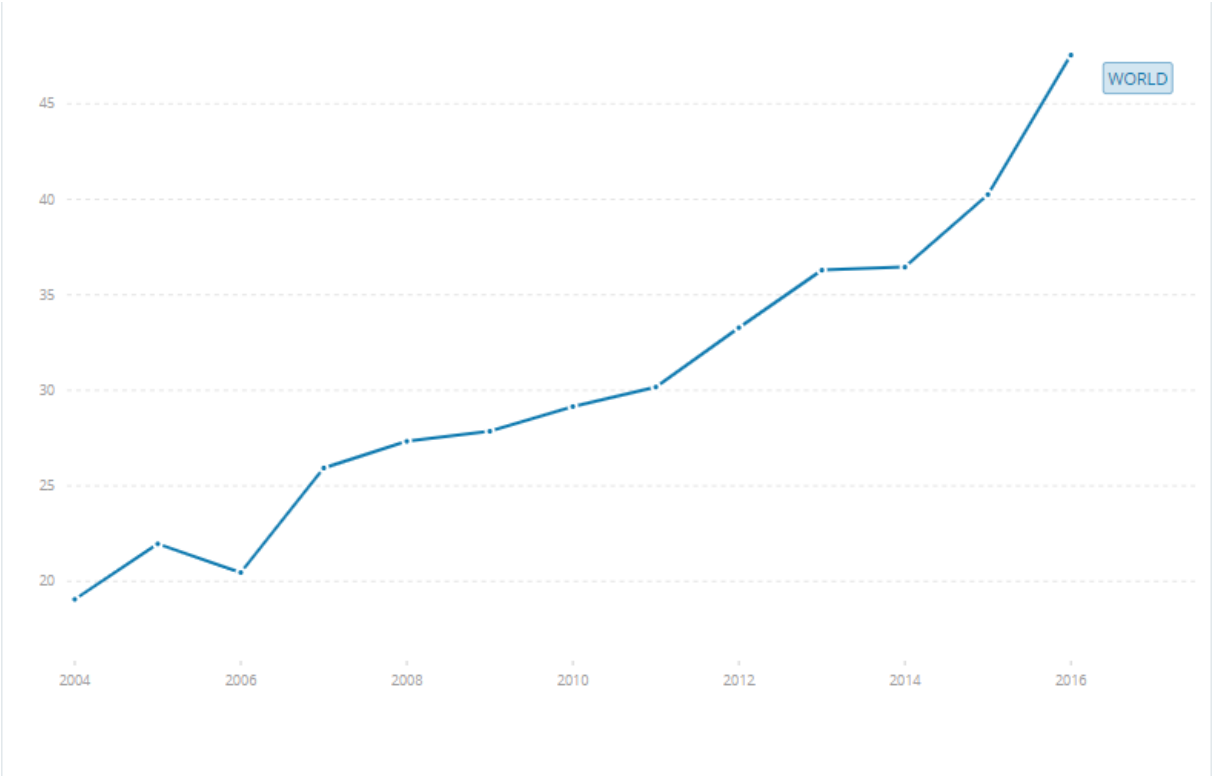


Figure 1
Automated teller machines (ATMs) (per 100,000 adults)

Source: World Bank

Lapavitsas continues to assert that the main policies of banks have changed in a way that they have started to see the households and every single person as a source of profit because the types of financial products have become numerous e.g. insurances, pensions, housing credits etc. have been started to use widely. Therefore, banks started to gaze upon households' revenue in order to lend their products. Within this context, the real wages ceased to rise, in other words, it remained stagnant. Since the consumption have been undertaken through the agency of financial system, the banks and other lending firms have become capable to drive their profits out of wages (Lapavitsas, 2011: 611-612).

However, Robert Went took our attentions to a very crucial point. He asserts that these growing profits do not generate employment. Mainly because the profits are not accumulated, instead they are channeled towards the financial markets (Went, 2001: 135). This process, obviously, did not result in households' favor. Because the share of wages within the gross national product remained stagnant or relatively diminishing while the share of consuming has tended to increase. Thus, consuming activities enabled the household debts to increase due to the fact that an ever increasing part of household incomes has become an indispensable part of financial system (Husson, 2010: 25).

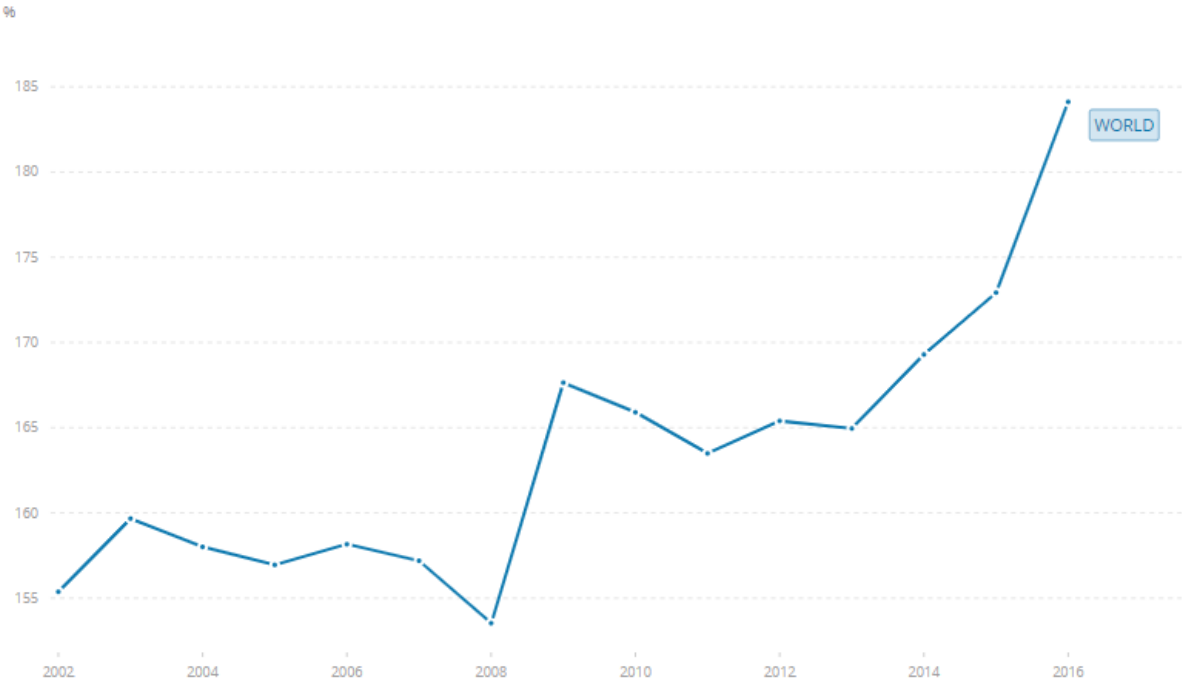


Figure 2
Domestic credit provided by financial sector (% of GDP)

Source: World Bank

Another contribution to in this aspect was made by Donald Tomaskovic Devey and Ken-Hou Lin. According to their analysis which was comprising the the relation between the earnings of big firms and the rate of employment, there was an analogy between these two dependents which means that while the firms grow, their rates of employment also increases. Thus, the relation between capital and labour remains balanced. However, after the year 1995 when the financialization process has gathered a momentum, the relation had changed in favor of the first one. That is to say, as the earnings of firms kept increasing the rate of employment started to decrease. This also shows that how the labour was excluded from this process (Devey & Lin, 2013:182).

Since the households were entegrated into the financial system deeply in order to cater for their needs such as housing, education, health and pension etc. they do not have any opportunity to invest which enable them to pay back their loans with the interest (Lapavitsas, 2017: 45). Simply because the interest payments are generally paid with the future incomes of households and they represent the appropriation of income acquired independently of the credit (dos Santos, 2017: 136).

Here, as Paulo dos Santos explains, a basic imbalance concerning the exploitive essence of loans can be found at the bottom of the relation between banks and households. On the one side of this relation there we have banks i.e. the institutions specialized on the management of money and on the other we have ordinary wage workers who are trying to secure their consuming activities (dos Santos, 2017: 136).

In this aspect, it can be said that the privatization of essential social needs make the households needy to loans. According to Paulo dos Santos an excellent example of this situation is the housing market. Because the households, now, can become a homeowner quite easily thanks to the securitizations of mortgages (dos Santos, 2017: 137).

Absolute social effects of financialization according to Ronald Dore can also be attached with the above mentioned facts. He says that the unequal distribution of income and welfare creates some uncertainties for households. Due to the growing competition between financial subjects households can no longer be certain about their investing options whether to invest their savings in insurance, pensions, bonds or stock market because the relation between risk and return have become ambiguous (Dore, 2008: 1105).

John Bellamy Foster concludes the consequences of this situation by saying that the income inequality has become more apparent and the income gap levels between rich and poor have gone far away, globalization of finance subordinates the significance of nation states and it also creates a situation where the economic operations cannot be controlled sufficiently and effectively (Foster, 2007: 7-10).

2.2. Impacts of Technology and Deregulations to the Financialization

It should be noted that *raison d'être* of finance is simply to provide the necessary money supply for the operations of real sector. And theoretically, it is also expected from the financial system that it should quickens the operations, retrenching the transaction costs and diminish the risk. The rapid developments in transportation and communication Technologies have obviously contributed to the integration of today's financial system.

Financial deregulations comprises the deregulations in national financial markets and removing the every kind of restrictions upon capital accounts. In addition, deregulations just open the way for the increase in the number of investments through the firms which are financially restricted. However, while it is possible that the number of investments goes up, it is also possible that the debtors could take a risk in their payments. For that reason, financial deregulations might also creates a fragile economic environment for all participants e.g. it can cause ambiguity in the markets, fluctuations in the foreign exchange parities, financial crises, rapid growths and recessions in macro economic level and a reverse fund flow from the developing countries to developed countries.

Additionally, financial deregulations aims to liberalize the financial systems of countries through breaking the obstacles in front of the interest rates and removing the credit ceilings, decreasing the limits on required reserve ratios that the banks obliged to put in central bank. Besides, with the financial deregulations, the banking sector becomes open to both foreign and domestic participants (Balı & Büyükşalvarcı, 2011: 10).

With the great use of computers in financial system, the system has become able to make innovations quite frequently. Unlike the innovations in real sector, the ones achieved in financial area is generally about the contracts and arrangements. The contracts are often respond the needs of all the parties including obligers, lenders and intermediaries with respect to their needs in funding and portfolio management (Guttman, 2008: 6-7).

According to Raghuram Rajan, technological advancements achieved in the last three decades have diminished the costs of communication and calculation as well as the costs of operation and storage. Another crucial aspect of new technologies according to him has been achieved in commercial activities. With the introduction of new techniques such as the financial engineering, portfolio optimization, securitization and credit rating etc. the financial system has become to used more commonly and easily. However, deregulations could just break open the obstacles standing in front of the market (Rajan, 2005: 1).

For instance, thanks to the financial deregulations, the banks, now, can diversify their services and can reach the every corner of the world. Although there are many firms functioning in the area of financial services, the leading financial institutions of the world have become monopolies by bringing their activities such as commercial banking, investment banking, fund management, private equity management and insurance business etc. under a single roof. Technological advancements cause the financial transactions and money transfers to overreach the national borders, so, they have developed a new identity and pioneered the globalization (Guttman, 2008: 6).

Developments in information technologies allowed banks to give credits to the consumers living in far away. However, this situation just increased the competition with foreign financial institutions. Therefore, it might be said that the technology have promoted the deregulations in one sense (Rajan, 2005: 6).

However, further adoption of the complex and ambiguous financial innovations caused some breakdowns in financial system in general due to the huge increase of the credits in the form of securities. Therefore the financial transactions have become highly risky. It can be said that the speculative activities made the prices of financial assets went up and paved the way for the consolidation of this fictitious capital in an artificial way. According to Guttman, the rise in fictitious capital have been maintained by the banks via providing a large amount of credit to the buyers in order to finance their activities (Guttman, 2008: 11).

Financial deregulations and the advancements in financial tools have accelerated the economic boost in global scale, especially in 2000s. This effect have come into the life with the wide liquidity of USD and have contributed for the finance of this boost both in supply side and demand side. Its contributions to supply side can be exemplified with its wide use in the investments, production, commerce and take overs while its contributions to demand side

is all about the enlargement of opportunities with regards to financing of households and consumers (Gürlelesel & Alkin, 2010: 26).

This rapid development of finance in the 20th century was accompanied by the developments in credit instruments through which a real financial boom has happened. This process is called financial revolution since the new financial firms has been founded (Duménil & Dominique, 2009: 26).

With the reorganization of global financial system entirely on the one hand and also with the increasing number of financial instruments and markets on the other, the private equity firms and other sorts of powerful monopolies have become much more in number (Harvey, 2014: 184) .

However, according to John Milios and Dimitris P. Sotiropoulos, who summarize the consequences of these advancements and deregulations, development of financial system is under the pressure of neoliberalism. According to them, because of the deregulations especially in the labour markets, requests of wage workers towards the salary increases and better working conditions have become less. In addition to this, with the continuity in the use of outsourcing the capital movements have become much more free. To add more, publicly owned corporations and institutions have been privatized and easy access to cheap credits is guaranteed by the system itself (Milios & Sotiropoulos, 2009: 171-173).

2.3. Financialization of Non Financial Firms

Increasing importance of finance in economy paved the way for banks, financial intermediaries, insurance companies and other finance companies to grow. This situation also effects the forms of non financial firms in a significant manner.

Rate of profit in real sector has decreased due to the increasing competition in commodity markets and decline in the tendency to consume. Due to the decrease in the returns of fixed capital investments and high profitability provided by the short run financial investments many firms operating in real sector has started to function in financial sector (Aytürk, 2011: 66).

According to Aytürk, firms operating before the 1980s has saved a considerable amount of their incomes and steer into the real investments which was supported by the financial markets. For this reason the shareholders are comprised of long term investors. However, the

financialization process cause firms to be managed for the interest of the shareholders. Therefore, the purpose to profit in the short term leads to increase in financial investments and decrease in fixed investments (Aytürk, 2011: 68).

William Milberg also draws attention to the same issue. According to him, arrangements made on the rights of shareholders in 1980s has shifted the power upon firm assets from executive members to shareholders. Therefore, more and more people and firms have started to operate in finance sector. On the other hand, Milbergs also mentions that the interest rates in US has increased in 1970s due to the tight monetary policy as a result of which as the rate of profitability in production sector declines it has become muchh more profitable to invest on financial assets (Milberg, 2008: 423).

Engelbert Stockhammer asserts that since the firms' policies are made in accordance with the interests of shareholders in the process of financialization, it can be said that their priorities are not composed of growth based policies rather profit increasing investments based on financial activities. Thus, financialization could turn itself a process that can harm the economic growth since the long term investments are not given place (Stockhammer, 2004: 722).

2.4. Basic Indicators, Causes and Results of Financialization

Globalization, neoliberalism, institutional changes, financial deregulations, technological advancements can be given as the examples of the facts that raised the importance of financial system in the global economic activity. All these matters have obvious effects upon certain economic indicators.

After defining the phenomenon of financialization “as the shift in the center of gravity of the capitalist economy from production to finance”, John Bellamy Foster mentions the signals which indicate the effects of financialization. Up to him, the main indicators are i) the increase in the share of financial profits within the total profits, ii) the increase in the share of debts within the GDP, iii) the shift of economic control from corporate boards to financial institutions, iv) uncertainty in the relation between financial and non financial firms, v) debt deflations that happen due to the financial bubbles oppressing the central banks (Foster, 2010: 8-10).

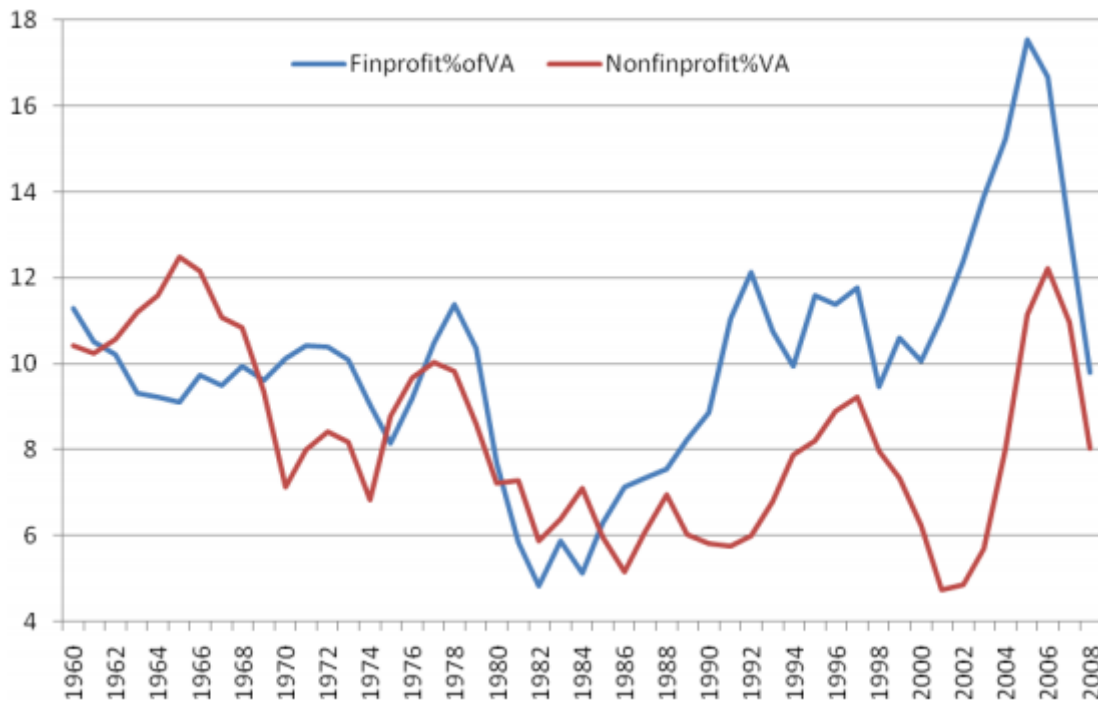


Figure 3

Financial and non-financial sector profit as a percentage of their value added to the US economy, 1960-2008

Source: Author's calculations based on US Bureau of Economic Analysis (Khatiwada, 2010)

Further to those indicators, Oktar Türel also signifies additional indicators. According to him, elements such as i) rapid increase in the daily trading volumes concerning foreign currencies, ii) immense increase in the profits of financial firms compared to the non financial ones, iii) rise in the profitability ratio of financial sector in direct proportion to the real interest rate limit, iv) rapid rise in the financial profits compared to the other profits, v) rapid rise in the funds provided from the global finance markets compared to the global export volume can be referred as the indicators of financialization (Türel, 2011: 149).

According to Thomas I. Palley, it can be said that the financialization's anatomy can be xrayed by i) increase in the debt of financial sector compared to total debt, ii) increase in the proportion of mortgage debts in GDP, iii) increase in households' debt as a percentage of GDP, iv) increase in the activities of FIRE sector, v) decrease in the debts of non financial firms, vi) decrease in the share of investments in GDP, vii) stagnation in real wages (Palley, 2007).

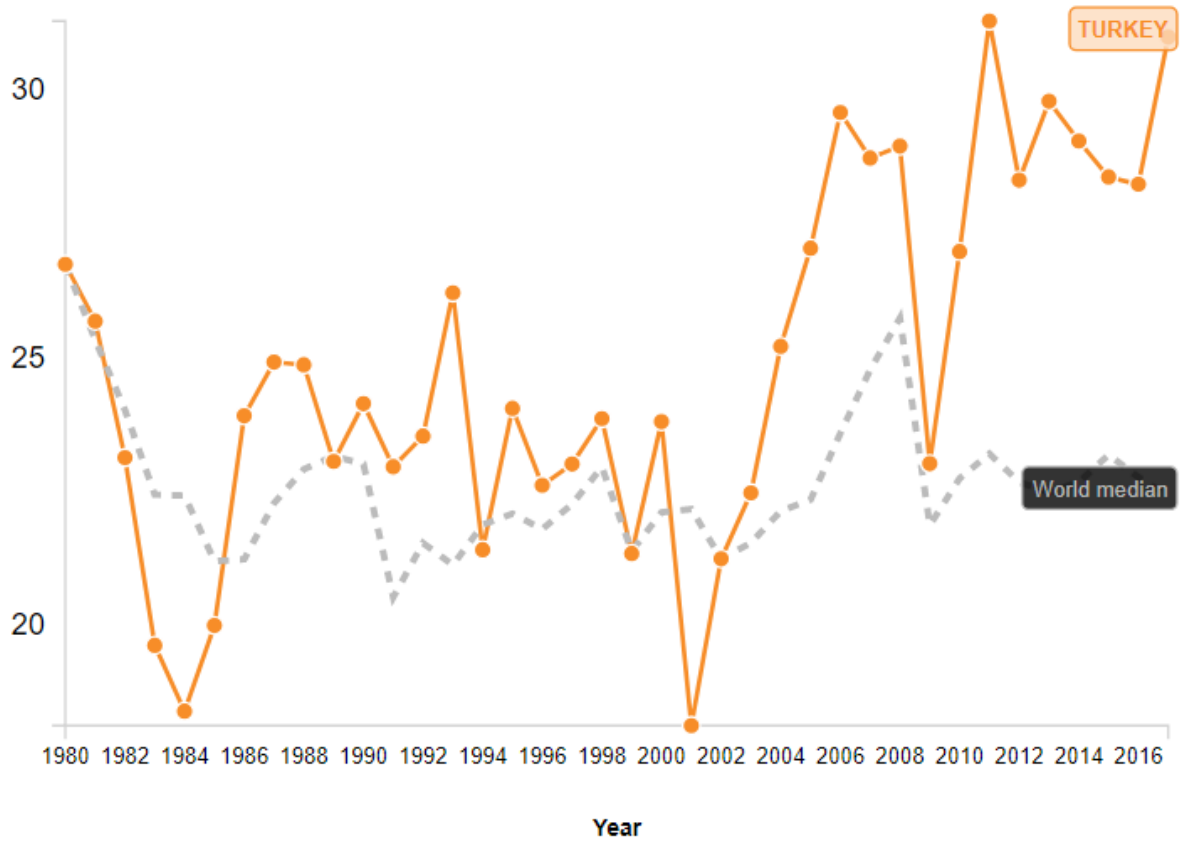


Figure 4
Total Investment (% of GDP)

Source: (World Bank)

Some indicators concerning the financialization effect the social and political affairs. In this aspect, the following principles asserted by Koç can be listed as an example; i) coming into the power of neo conservative political parties, ii) removal of the all obstacles in front of the capital flows globally and the implementations about financial deregulations, iii) privatization of public enterprises and mythicising the market system, iv) reducing the taxes paid by capital, v) neutralization of the labour organizations, vi) placing the flexible working arrangements instead of secured employment, vii) reducing the social state spendings (Koç, 2013: 51-52).

Another contribution to this context was made by Tellalbaş. She lists the reasons for financialization as i) application of financial innovations as financial engineering in the financial markets, ii) removal of the obstacles in front of the capital movements in order to raise the investments through creating cheap funds, iii) increase in the portfolio revenues in non financial sectors (especially in production sectors) since the early 1970s, iv) growing importance of financial sector for the economies since it has become a source of profit, v)

growing importance of the portfolio revenues (interest, dividend, capital gains) due to the corporate cash flows concerning the non financial firms (Tellalbaşı, 2011: 7)

Consequently, the harsh effects of financialization can be summarized as a noticeable slowdown in real economic growth, slowdown in growth tendency and increase in income inequality (Rochon & Rossi, 2010: 5). Expeditious enlargement of financial sector on global basis has made it to fulfill the functions performed both by capital markets and banks. Therefore, while becoming much more international and speculative on the one hand, it has also triggered the creation of quite complex financial instruments on the other (Standing, 2009: 59). Growth of financial sector compared to the real economy has influences upon the creation of financial bubbles and the problem of stagnation in production process has become more observable (Foster, 2010: 10).

3. GENERAL VIEW OF TURKISH ECONOMY SINCE 1980s

3.1. The Period between 1980 and 1990

3.1.1. 24th January 1980 Decisions

The foreign debt crisis that Turkey had been struggling for during the end of 1970s has led Turkey to develop a stabilization program in order to overcome her structural economical problems. Through the introduction of this program called 24th January Decisions a series of essential precautions had been taken.

It can be said that the main purpose of 24th January Decisions is to reduce the need of outsourcing and to pay the foreign debts without any delays. For this purpose, the leading policy had been set up in order to increase the foreign currency and export revenues through implementing an open economy. Furthermore, IMF and World Bank also supported this new program by signing a 3 year stand by agreement in June 1980 and providing structural adjustment loan (Şahin, 2016: 192-194). In addition, the structural reforms enforced by these institutions (the liberalization of commercial activities, deregulations in banking, privatization of public enterprises and tax reforms) also contributed to the financialization of Turkish economy (Oran, 2015: 665).

Like every development or stability programme, 24th January Decisions has been designated to serve for both short term and long term purposes. While achieving the price stability,

avoiding payment difficulties in foreign debt, use of idle capacity and accelerating the economic growth can be mentioned as the short term purposes; shifting the economy policy from import substitution to export oriented economic growth is one of the main characteristics of this decisions. These purposes have led to the creation of an economic structure based on the market mechanism. Some necessary precautions - such as diminishing the intervention of state into the economic affairs (leaving the price formation to the market), liberalizing the interest rates, implementing a liberal foreign trade, encouraging the direct investments which shall be made by international capital and bringing new regulations to the wages and trade union's activities - have been taken in order to put these decisions into practice (Şahin, 2016: 192-194).

Following the release of 24th January Decisions, foreign capital inflows were allowed likewise the policies which were implemented in order to encourage the exportations through providing liberalization on foreign exchange regime by devaluation and regulations on exportations. All the indicators of liberalization had been observed in Turkey concerning this period and the decisions were started to be taken accordingly. Controllings upon price were removed and the prices of public economic enterprises had increased to be able to finance the public deficits. Therefore, the credit squeeze that come into surface due to the rapid increase in interest rates had deeply effected the consumers and entrepreneurs (Onur, 2005: 141).

It can be asserted that one of the most eminent effects of this decisions had happened in the area of interest rates. As the interest rates had been increased, private sector subsidies, central bank advances and money in circulation had been decreased. Furthermore, Turkish Lira had been devaluated 48.6% in the face of foreign currencies and the USD/TL parity had been boosted up from 47.80TL to 71.40 TL. In addition to these, export revenues had been excluded from the taxes just like the taxes implemented upon export goods and export credits (Karluk, 2014: 418-420).

In an environment where the impacts of military coup has been experienced, changes brought into the wages and trade union's activities has become much more questionable. Following the 24th January Decisions, Collective Labour Agreements Coordination Council has been founded whose mission was to prevent the strikes and control the wage increases. Syndical activities had been prohibited and real wages had been kept in minimum levels. As a result of these practices, rate of capacity utilisation had been increased and labour costs had been reduced (Şahin, 2016: 192-194).

It could also be said that since the high levels in wages are a cost element for the employer, policies which enforce to keep the wages in minimum levels will have some positive influence upon the raise in profits rates. Therefore, both domestic and foreign capitals will direct themselves into the material investments. As a natural result of this process, the main costs of domestic capital will fall and it will be able to export the goods (Kepenek, 1987: 47).

With the implementation of 24th January Decisions, a considerable structuring had been experienced in Turkey. Serious changes occurred in exchange rate parities, interest rates, foreign trade and foreign capital investments had beared a critical significance. For instance, daily exchange rate practices as well as the liberalization in imports and allowance for the foreign direct investment inflows had been achieved in this period. However, the long term results of this program will lead to inevitable economic crises although it had become successful at the beginning (Firat, 2009: 504).

3.1.2. Emergence of Financialization in 1980s

First steps towards to formation of financial markets in Turkey begins with the introduction of Capital Markets Law enacted in July 1981 which was followed by the formation of Capital Markets Board in February 1982. However, regulations on the diversification of financial instruments and development of financial markets as well as the structuring of financial intermediaries has become possible with the Council of Ministers' Decision taken on 1989 (TCMB, 2002: 13-16).

As a complementary part of 24th January Decisions, interest rates concerning both the deposits and credits were allowed to be determined by the market itself so that it was foreseen that the trend towards the domestic savings shall increase due to the financial competition and positive real interest rates which also effect the deepening of the markets as the investible funds to financial sector increases (Eroğlu, 2002: 37).

Additionally, the banks were granted with the right to issue a certificate of deposit under the same conditions with their deposit provisions. But since the necessary control mechanisms could not be settled up for those certificates, the unrequited growth has triggered the very first financial crisis in the mid of 1982 due to this defectively planned liberalization process (Sönmez, 2018: 322).

Towards the end of 1982, liberalization on foreign exchange transaction which was started with the sanction of possessing foreign currencies for commercial banks had been

consolidated with the decision no. 30 taken by Council of Ministers on July 1984. This decision also removed all the obstacles in front of holding, using and exporting foreign currencies and allowed natives and foreigners to have foreign currencies on their bank accounts. It should also be noted that a law had been enacted in the same year concerning the formation of unrestricted areas in order to draw attention of the foreign capital investments (TCMB, 2002: 13-19).

Liberating the interest rates – which was brought back to its previous state in 1983 – in those years has led to the competition and banker crises as well. In addition, termination of IMF's control over the money supply in 1985, the negative effects of contractionary policies over the economic growth and employment and coming of the due dates of the debts which were deferred in 1980 had led the government to change its policies which, in return, has resulted with taking the heed of economic growth and increasing employment (Kepenek, 2013: 195-212).

Even though the number of capital inflows into Turkey had increased with the 24th January Decision, the number of direct investments were scarcely any. However, thanks to the establishment of ISE in 1986 the portfolio investments had begun. On the other hand, capital outflows had only been experienced during the period of stagnation in 1988 due to the short term capital movements. Furthermore, as a result of the increase in the difference between the official exchange rate and free floating rate, devaluation expectators on the one hand and the increasing inflation rate on the other had paved the way for the account holders to direct themselves into the foreign currency. The government at the time had to take new stability decision which was called as the 4 February 1988 Decision in order to overcome the stagnation, to stop importation, to revive exportation and to cut down the public spendings (TCMB, 1990: 9-36).

Foreign exchange markets and the gold against foreign exchange market were institutionalized respectively in 1988 and 1989, through which it was aimed to integrate the use of foreign exchange into the banking system. Laws which were enacted and the regulations which were changed in this period generally comprised the liberalization on foreign trade and financial liberalization whereas the controls over the capital movements were kept off. Moreover, the interbank Turkish Lira and foreign exchange markets within the body of Central Bank were also institutionalized (Kepenek, 2013: 195-212).

In order to deepen the financial system, interest ceiling policy used in deposit and credit interests had been put aside in 1988 which in return caused the savings to be directed towards real sector and effected the growing performance and trend of whole economy in a negative manner. In order to overcome this difficulties, the necessity of foreign capital inflows were put on the agenda. However, the growing number of short term capital inflows brought along the weaknesses concerning the ability of Central Bank to control monetary aggregates, therefore, the monetary policies had begun to lose their effectiveness drastically (Kahraman Akdoğu, 2012: 193-194).

Another crucial decision taken in that period was the Legislation of Protection of Value of Turkish Currency which entered into force in 1989 through the decision number 32 signifying an important step towards the liberalization of foreign exchange regime carried out since the beginning of 1980s. With this decision, Turkish Lira desired to be made a convertible currency and the many of the restrictions brought by the foreign exchange regulations had been removed gradually. However, this situation led to the speculative foreign capital inflows and paved the way for many economic crises in the upcoming years because the rising interest rates could increase the costs, could hinder the policies on industrialization and could promote the speculative investments since it increases the risks as well. Therefore, the rising interest rates in the period after 1989 had effected the investments in quite a negative manner that foreign capital inflows had made the Turkish economy very vulnerable and sensitive in front of the possible crises which would happen (Özsoylu, 2016: 173-174).

3.1. The Period Between 1990 and 2000

Turkish economy had undergone a severe quake in consequence of the First Gulf War. In that period a sudden cease in the capital movements had been experienced which also effected the overall economic performance in quite a negative way that commercial activities had been halted whereas the tourism revenues also decreased extremely. Devastating effects brought by the Gulf War put some reducing effects upon the economy of the region.

Post-1989 period had witnessed the climax of financial deregulations since the tight controls over global capital inflows had been removed which led the expansion of import volume concerning the whole economy. However, this process of foreign expansion had been paid through the nose since the necessary stability conditions were not executed. Additionally, since the national economy had been deprived of the essential economic policies concerning

money and foreign exchanges led the whole economy much more fragile and made the process inevitable for the shocking crises (Erinç, 2013: 55).

Depreciation of the foreign exchange and interest rates during the 1990s had accompanied to each other and prevailed the dominance of Central Bank whereas the national markets became open and fragile for the speculative invasion of global short term capital inflows. However, these capital inflows could finance the external deficits on the one hand, and they also led to the expansion of consuming and importing volumes by decreasing the national savings trend. Therefore, the upcoming crises are deeply related with the fact that since the economic growing process depends upon the balance between foreign exchange and interest rates, investment and accumulation priorities in national economy that are directed towards to the non productive capital accumulation and the credibility problem happened in financial markets led to those crises of 1991 and 1994 as well (Erinç, 2013: 40).

3.1.1. 1991 Economic Crisis

As the war just broke out near the border and the mobilization of immigrants put crucial pressure upon the economy both in macro and micro levels. While the foreign capital inflows were about \$4 billion USD and the outstanding external debts were about \$8 billion USD in 1990, capital outflows due to the war had put the country in a critical situation because \$2.6 billion USD amount of foreign capital had left the country (Ekinci, 2008).

Ruinous impacts of war over the Turkish economy had reached serious dimensions so that a %0.3 of deceleration in growth rate, %180 of budget deficit and 11 point increase in inflation were observed in 1990. However, even though Turkey had supported the international coalition formed during the First Gulf War and became an ally with USA, she could not find the sufficient back up needed for the compensation of damages happened due to the war. Since it is not possible to calculate exactly the losses created by war throughly, there is no doubt that the effects were destructive both economicall and socially (Ekinci, 2008).

3.1.2. 1994 Economic Crisis

Without find necessary time to relieve the damages of First Gulf War, now, Turkey had to face another crisis in 1994 which was called the banking crisis. Rather than being a closed economy, in 1990s, Turkey had started to open her economy to international capital movements. However, as the main resource of this structuring was the foreign capitals in general, Turkey found herself in a dawn of crisis since the investments and savings had been

directed to a non productive capital accumulation whereas the financial markets had a problem of credibility. One of the main reasons which led to the 1994 crisis was the efforts to clear the debts created by the 24th January Decisions with the domestic borrowing, foreign borrowing and with the resources of Central Bank. However, this method led to a significant decrease in foreign exchange reserve (Karluk, 2014: 429-434).

Another negative aspect of First Gulf War was the detrimental effect upon the foreign direct investments. First months of 1994 had witnessed the increasing interest rates depending on the gradually increasing public debts which accelerated the foreign capital inflows and thus led to Turkish Lira to gain value extremely. Getting together with the real increases in the cost of labor force and decline in the both direct and indirect export incentives, this situation caused the Turkish economy to lose her power of competition quickly. As a result, domestic imbalances derived from the public deficits also occurred instabilities in external economic balances which triggered an immense increase in imports and a certain decline in exports. Under these circumstances, it was obvious that the 1994 Economic Crisis was inevitable. This crises had led to the introduction of 5th April Stabilization Measures. In the post crises period the inflation rate was %125 in Turkey (Ardıç, 2004: 145-154). Moreover, the money program adopted in 1990s just created a facility for budget deficits to be able to financed through the commercial banks. All these developments had contributed to the break out of upcoming crisis (Çolak, 2003: 166).

Since the first signals about 1994 Crisis had come to surface in the mid 1993, Turkey could not cope up with the crisis properly although the decision makers prepared a considerable amount of investigations and preparations about the crisis. Appealing to the domestic borrowing in order to clear the public deficits belonging to the period prior to 1990 just prepared a ground for a break down in fundamental financial indicators. Since the inflation rate kept its highest presence in the climax, the foreign capital movements on the other hand continued to their speculative attacks on the Turkish economy by means of financial deregulations. As a result, Turkish economy had to face the unseen current account deficits and budget figures which was never seen before up to that time. One of the favourable receipts in order to solve those problems and to be able to get out of difficulties was the proposition to provide liquidity for the market in order to decrease the interest rates. However, as a result of this proposition the demand for foreign exchange currencies increased. Even though those indicators of upcoming crisis had been figured out before the crisis, value of

Turkish Lira could not be decreased and the interest rates increased. And those developments were considered to be the beginning of 1994 Economic Crisis. Actually, most of the developing countries paid this crisis as a price for the financial deregulations, Turkey could not take the necessary measurements (Doğan, 2014).

Basic imbalances that paved the way for economic crisis prior to 1994 can also be listed as i) high levels in the real cost of domestic borrowing, ii) high levels in the rate of both domestic and foreign debt stock to GNP, iii) unheeded levels of current account deficits concerning the years starting from 1990, iv) overvaluation of Turkish Lira, v) increasing trend in the rate of credits expanded by commercial banks to GNP, vi) high levels of total foreign exchange debts belonging to banking sector against the foreigners (Özatay, 2000: 335-339).

Another significant factor that prepared an atmosphere for the 1994 Economic Crisis was the efforts to finance the public deficits through the high interest rate borrowings. Couple of years prior to the crisis, approximately \$7 billion USD had left the country and this urgent outflow also contributed for the break of crisis. Therefore, as the foreign funds and international capital started to leave the country the financial sector found itself in a deep crisis. With the pressure coming from the private sector the interest rates tried to be decreased. However, the Ministry of Treasury had nothing but to find financing except the short term advances of Central Bank. Since the government chose to direct herself into the resources of Central Bank and to cancel the public instrument biddings led to the disappearance of stock markets. Regardless of that, as the withholding taxes were put upon the revenues derived from securities and since the liquidity excess were not absorbed by the stock exchange markets the mentioned excess led a quick increase in foreign exchange rates (Berument, 2002).

As the obstacles in front of foreign capital movements had been removed during the process of financialization at the end of 1980s, increasing fiscal deficits had become to compensated with the domestic borrowings. However, since this situation created a sense to exclude the private investors, a policy was made to liberalize the capital accounts in order to make it easy for the foreign capital to enter country. But, since the economic structure of Turkey was not ready to correspond with that sort of a development, the reaction to this was the break out of the crisis (Girdap, 2007).

There are also other approaches to the 1994 Economic Crisis asserting that the two basic reasons of the crisis was liberalization of capital movements since 1989 and the funding of treasury by the cheap monetary sources supplied from the abroad. Second reason that is also mentioned was the high wage increases in 1989 incited the domestic demand (as cited in Ardıç, 2004: 152).

Foremost macroeconomic reasons which brought the crisis was the overall problem of inflation. High inflation made the banks more sensitive to the maturity mismatch and interest rate risk as a result of which the liquidity squeeze was on the inevitable. This liquidity squeeze accompanied with the increase in public deficit and with the increase in inflation has started a process of escaping from Turkish Lira. Foreign borrowing in that period has been more attractive for both private sector and public sector because the First Gulf War led the oil prices to go up and so the inflation. Thus the interest rates also increased in parallel with those incidents. Since \$2.5 billion USD had left the country along with Turkish Lira equivalent to \$2.5 billion USD had deepened the crisis with which the financial sector trying to cope with. Therefore, the Central Bank had to bring an enormous amount of foreign exchange into the country from the abroad since there was a huge need of foreign exchange. The harsh effects of the crisis could also be seen in the statistics. Inflation went from %44 to %60 in 1991 while the growing rate declined from %9 to %0. Along with those statistics, international credit rating institutions reduced the credit score of Turkey (Kahraman Akdoğu, 2012: 193-194).

1994 Crisis hit the Turkish economy seriously so that the Treasury had become indebted with an interest rate of %400 on the one hand and on the other the stock market collapsed. In the face of collective redundancy many of the wage laborers had to accept without having salary. Rapid increase in the real interest rates and foreign exchange currencies shaked economy so deep that couple of banks including TYT Bank, Impexbank, Bank of Marmara and a number of companies also collapsed. All those negativeness caused a decrease in growing rate and increase in unemployment rate as well (Canikli, 2010).

Result of 1994 Economic Crisis can be listed as i) decline in foreign exchange reserves from \$17.7 billion USD to \$12.5 billion USD in the May of 1994, ii) \$14 billion USD of foreign trade deficit due to the rapid increase in interest rates and overvaluation of Turkish Lira, iii) \$6.3 billion USD of current accounts deficit and iv) as a result of financing the budget deficit

with the domestic borrowings the rate of domestic borrowings to GNP was %18 which was the highest one among the developing countries at that time (Karluk, 2006).

Economic uncertainties, insecure market conditions and political situation can be mentioned as the negative aspects of 1994 Economic Crisis which effected both the national and international capital in a bad manner. Crisis also led to a decrease in the amount of foreign capital in the rate of %30.13 so that the foreign capital decreased from \$2.1 million USD to \$1.4 million USD in 1994 as compared to the previous year (Türkyılmaz, 2004).

Concerning the long standing impacts of 1994 Economic Crisis factors such as high inflation rate, high interest rates, overvalued Turkish Lira, wavelike situation of domestic demand, banks that lack of sufficient equity capitals, high increase in the investments of service industry and the nonfulfillment of the competitive exportation based on research and development could be listed as the main reasons of the ongoing crisis which affect Turkish economy respectively on 2000 and 2001 (Arioğlu & Yılmaz, 2001: 5).

5th April 1994 Stabilization Measures can be evaluated as a program which has mainly two aspects. While the one aspect bears a periodical characteristic which was concerning the measures on foreign exchanges, wages, pricing policies, central bank and banking sector along with the capital markets and public; the other aspect comprises the structural adjustments such as privatizations, enhancing the public economic enterprises, reliable employment in public sector, administrative and financial regulations on the local authorities along with the reforms on social security institutions. In general, those measures were taken in a wide range of spectrum from the short termed political measures to structural reform. However, since those decisions were taken as a result of domestic and foreign pressures, the result was not satisfactory in order to answer all the problems. Government had to bring an unlimited guarantee for the bank accounts in order to prevent the cash outflow from the banks and also to prevent the further increase in the price of foreign exchange currencies. It can be said that those decision were become successful in terms of financial markets and public economy but the same success could not be realized in the structural adjustments that was meant to be done in the whole economy (Karluk, 2014: 422-428).

5th April Stabilization Measures aims to decrease the inflation rate in the short term so that it was believed to provide stability in foreign Exchange rates and it also aims to solve the public

deficits in the medium terms and foreign borrowing so that the stability in financial markets so that the sustainable growing in the long term could be achieved (Kahraman Akdoğu, 2012: 193-194).

3.1.3. 1998-1999 Economic Crisis

This period had witnessed the end of stand by agreement made with IMF. However, all these developments had leveled the inflation which was around %65.6 in 1995 up to %84,9 towards the end of 1996 and the total government spendings had increased due to the lack of customs treaty with European countries. Additionally, the import rate from the European countries had showed an enormous increase compared to the total rate of exportations and nothing had changed in the economy in 1997 (Akpınar, 2009).

Economic crisis that burst mainly in Russia had put Turkey a risky place in the eyes of global financial institutions which led a rapid outflow of foreign capital in Turkey. Since the political stability could be achieved towards the end of 1998 and by virtue of the agreement made with IMF, Turkey could finally reached a balance in her economy (Ongun, 2003: 65). A medium term stability program had been prepared in Turkey in order to take care the high inflation and public deficits which were jumping their highest levels at the time. The stand by agreement signed with IMF, thus aimed to a stable monetary policy which shall go hand in hand with a low rates of inflation. After the agreement was evaluated as successful by IMF, the budget balance was somewhat settled and Turkey's credibility of borrowing had become much more positive (Günel, 2001: 36-37). However, the 1999 Earthquake had paved the way for a serious economic crisis by destructing the positive atmosphere in the financial markets (Ongun, 2003: 65).

Under these circumstances, Turkey had followed a tight monetary and fiscal policies as well as using the foreign exchange as an anchor in order to overcome the problem of inflation through these exchange rate policies. However, the policy of increasing the foreign capital through the high interest rates had caused indebtedness to increase even much more. However, according to these monetary and fiscal policies that were planned, some tactics were developed in order to redesign the main roles of central bank. Therefore, it was aimed to have a exchange basket considering the 18 month period between January 2000 and June 2001 (Erçel, 1999: 1-4). Within the context of the program concerning to decrease the inflation that was launched on January 2000, the main goals were composed of decreasing the

interest payments and making reforms on social securities, privatizations, capital markets, banking sector, taxes and agriculture policies (Doğan, 2000).

While it was planned to decrease the inflation rate towards the end of 2000 and keep the inflation rate around %25, the inflation unfortunately became %39. Furthermore, the foreign trade deficit at that time happened as \$22.3 billion USD whereas the current deficit happened as \$9.8 billion USD which was a way above the foresighted numbers (Çarıkçı, 2001: 477).

3.2.The Period Between 2000 and 2010

3.2.1. 9th December 1999 Stability Decisions

In order to overcome the unsustainable macroeconomic imbalances that Turkey had to face, another economic stability program had been prepared and put into practice towards the end of 1999 and beginning of 2000. Fundamental purposes of that program was to lower the inflation rate at least to single digit levels, to create a much more balanced structure on the public finance and to establish a sustainable growth atmosphere in the whole economy. This program had been based on four main principles. While the first one concerns the comprehensive fiscal policies that aims a high level of improvement in primary balance of public sector, the second one concerns an income policy coherent with inflation targets. Money and exchange rate policies focused to lower the inflation as well as the structural reforms which could realize the projected improvements on public sector and inflation can be mentioned as the third and fourth principles of this program (Kesebir, 2008).

Based upon the evaluation that asserts the inflation in Turkey had an adhesive character, it was planned with this stability program that Turkish Lira could only lose 20% of its value until the end of 2000 (Yeldan, 2001: 190).

One of the most obvious aspect of the program was the limitation which were put upon the net domestic assets of the central bank. According to this aspect, the central bank could only release the Turkish Lira that are created against the foreign currency inflows to the market, therefore the additional liquidity could only be realized by this way (Eğilmez & Kumcu, 2003). Through this program, it was also aimed to ease the inflationist pressures through leaving the expansion on money demand to the market forces thanks to the rule governed money program where the monetary base had been based on net foreign assets (Uygur, 2001:46). As a result of these precautions it was aimed to break the expectations which feeded

the inflationist pressures on the one hand and it was foreseen that the prices would follow a parallel route coherent to the fixed foreign currency depreciation program (Yeldan, 2001: 190).

As a result of the positive impacts following the introduction of that program, the annual compounding interest rate of domestic borrowing which was around 106% in 1999 had been reduced to 37% in January 2000 and the overnight interest rate in interbank market had been reduced to 34.1% from the levels of 66.6% which was reached on December 1999. This unexpected and rapid decrease in interest rates had posed some serious problems for the struggle against inflation. As the deferred consuming demands had come into play very quickly with the consumer credits proposed by the banks with the low interest rates, the savings had shifted to consuming, therefore the decline in inflation had not realized in the expected pace (Eğilmez & Kumcu, 2003: 321-322).

As a result of the very rapid increase in consumer credits, sales numbers concerning the automobiles as well as durable consumer goods and investment goods had increased considerably. The volume of consumer credits which was around 100 trillion TL at the end of December 1999 had reached 4.504 trillion TL at the end of October 2000 (Uygur, 2001: 47).

As the overvalued Turkish Lira in real terms had made purchase of import goods attractive, it had lessened the competitive capacity of exportation. Imports in automobile sector had increased %112, consuming goods had increased %31.7 and the investment goods had increased 29.2% in this process (İzmirlioğlu, 2000: 61). While this program foreseen the current account deficit as 1.5% - 2% of GDP which corresponded to \$3-4 billion USD, but the real current account deficit had been realized as \$9.8 billion USD which was corresponded to the 4.8% of GDP (Uygur, 2001: 46).

Leading reasons that laid behind for this high current account deficit could be listed as the overvaluation of Turkish Lira as well as the depreciation in EUR against USD because most of Turkey's foreign trade had been undertaken with the European countries where the prevailing currency is EUR. Along with those reasons, the considerable rise in oil prices compared to the beginning of 1999 could also be mentioned (Yay, Yay, & Yılmaz, 2001: 46).

Another significant impact of this program concerned banks that were enhancing their open positions due to the disappearance of devaluation risk and determination of future prices of foreign exchange currencies. Since BRSA (Banking Regulation and Supervision Agency)

had taken an active role in regulation the markets, many of the operating banks put themselves a hurry to close their open position and take actions immediately. Therefore, the banks tried to raise their liquidities in order to purchase foreign exchanges which paved the way for the interest rates to rise since the demand for liquidity had risen. However, this rapid increase in interest rates had put many of the banks into trouble since most of them had carried some treasury securities and use them in repurchase agreements (Eğilmez & Kumcu, 2003: 329-330).

As many of the banks had become addicted to the high revenues which they gained through the government bonds that pose high incomes depending upon the high inflation, they caused a much more fragile structure during the disinflation process and brought a crucial contradiction for the economy policies. Because the economic policies needed a low nominal and real interest rates in order to fix the public finance through leveling down the budget deficit. Therefore, this process had put many of those banks in a tight spot and deepened the process of economic crisis (Akgüç, 2001: 32).

As the Central Bank had played a waiting game in order not to determine diverge from its goal concerning the net domestic assets within the context of this program during the liquidity crisis occurred in November 2000, the true confidence for Turkish Lira had been shaken. To cap it all, as the liquidity which was created by the Central Bank had returned to itself as a demand of foreign exchange, the Central Bank had to face the depletion of foreign exchange reserves. After this liquidity crisis, another agreement was reached upon by IMF and new commitments concerning the restructuring of finance sector had been given to IMF in exchange for \$10.5 billion USD of credits. Furthermore, additional indemnities had been presented to account holders and foreign fund owners in order to reassure the trust for banking sector.⁴⁰⁶ As a result, Central Bank could only repulse this speculative attack aiming the foreign currencies in November 2000 through the high interest rates, considerable losses of foreign exchange reserves and additional IMF credits (Uygur, 2001: 44).

3.2.2. 2000 Economic Crisis and The Fight Against Inflation Program

The period that embrace the years between 1990 and 2000 signifies the climax of global instability which effected both Turkey and the other countries deeply negative.

Negative aspects delivered by the Gulf War had affected the countries of the region in a bad manner. This period also witness a transformation in Turkish economy which was turning its

face to a liberal era where the global capital movements gathered momentum and the economy had been subjected to various economic crisis in a very short period of time. Therefore, it could be mentioned that as of the third quarter of 2000, concerns with respect to finance the current account deficits had risen due to the weak growing performance, unsustainable public sector imbalances along with the unsustainable domestic borrowing and high inflation. It is also corresponds with that period of crisis that the structural problems in banking sector had deepened the economic crises experienced in that period and named them as the banking crises (BDDK, 2010).

As the regulations upon banking sector had gained momentum the banks had started to took quick and sudden decisions in order to close their open positions and these situation dragged them into a liquidity crisis in the last ten days of November 2000. Since the banks that were struggling with this liquidity crisis started to fund their open positions with the treasury securities the interest rates had increased a way high and the crisis had deepened as the real sector had started to experience the same problems (Turan, 2011: 69-70).

Following this liquidity crisis which started on 22 November 2000 approximately \$5.5 billion USD of foreign exchange in the reserves of Central Bank had left the country (Uygur, 2001: 6). Mainly because of the intervention of Central Bank to the crisis had remained incapable the overnight interest rates had risen to 1700% while the Istanbul Stock Exchange had fallen 26% at the beginning of December (Turan, 2005: 6).

Due to this hard situation that the economy tried to cope up, coersive and eventful pressures made by both the public and private sector had left the government no choice but to prepare a serious and effective stability program. Therefore, the government of the time had allocated its sources to focus on a new stability program by signing another stand by agreement with IMF and took some critical decision in accordance with the requests made by World Bank which can be summarized as follows: i) law concerning the banks had been changed and it was made easy to appropriate the banks whose financial conditions went down, ii) social security law had been changed and the age of retirement had been increased for the newcomers of the system, iii) agricultural support policies had been revised, iv) in order to promote the privatizations for the foreign investors the necessary law had been changed concerning the concession transfer contracts (Özsoylu, 2016: 265).

So, in accordance with those decisions the government of that time had announced a program called Fight Against Inflation Program which would be implemented between 2000 and 2002.

Fundamental purpose of that program was as follows; i) to lower the consumer inflation rate to 25% at the end of 2000 and 12% at the end of 2001 and 7% at the end of 2002 through the sustainable and consonant fiscal, monetary and Exchange rate policies which would be enacted harmoniously and backed up by structural reforms, ii) to lower the real interest rates in to acceptable levels, iii) to increase the growing potential of the whole economy, iv) to provide a much more just and effective allocation of economic resources, v) to give an impetus to privatizations (Erçel, 1999).

As this is the case it should be noted that this program which was supported by IMF had three dimensions. First dimension covered the decline of public finance deficits and a tight budget program as well as the decline in the deficits of public economic enterprises and to support the prices given to agricultural sector. It was also planned to tax the capital incomes and some other elements associated with the wealth. Second dimension of the program covered the elimination of some instruments which were used by politicians and brought to a standstill concerning the public finance. In addition, completion of the privatization and restructuring of the social security system as well as the formation of private pension regime had been mentioned. It was also decided that the revenues gained from the privatizations would be used in order to close down the public deficits and to lower down the inflation rate. The last dimension of the program focused on the money and exchange rate policies. Money policy would be an application like currency board which predicate the nominal anchor of Exchange rate and the control of money supply. It was planned to adapt floating rate system after June 2001. According to this program the Central Bank would provide liquidity to market only in exchange for foreign Exchange (Eğilmez & Kumcu, 2001).

3.2.3. 2001 Economic Crisis and Transition to the Strong Economy Program

The measures and temporary supports that were taken in order to prevent the worsening of 2000 crisis could not be sufficient to make the stand by agreement signed with IMF sustainable and yet another economic crisis had broke out in the following year. Nevertheless the structural conditions and the indicators that were signalling the 2001 Economic Crisis had been understood much more before the crisis. In this context, it could be said that the banking system lack of excess foreign exchanges and the artificial capital inflows created by the discrepancy between interest rates and foreign exchange rate along with the rising distrust in the market had paved the way for this crisis. Extreme volatility in the foreign exchange currencies due to the foreign exchange demand, the impact of previous financial crises upon

the whole economy, shrinkage due to the non interest surplus, the immense rise in outstanding external debts, high rates in the balance of payments deficits and lastly the uncertainties in political area could be listed as the basic reasons of 2001 Crisis (Şimşek, 2007: 57).

It should also be noted that the dispute between the president of the republic and prime minister in the meeting of National Security Council also affected the initiation of 19 February 2001 Economic Crisis. After the meeting the financial markets had started to be shaken and \$7.6 billions USD of foreign exchange demand had been recorded while the Central Bank could only offset \$1.2 billions of it on that day (Karacan, 2014: 770). After the many of foreign investors had left the country with their capitals and the account owners had tended to purchase foreign exchange along with the strong attitude of Central Bank making no concessions about its purpose of net domestic assets the interest rates had risen almost to 1000% and led the crisis to deepen even much more in the following days. The foreign exchange reserves of Central Bank had diminished \$5.3 billions of USD in 23 February 2001 while the overnight interest rates applied on the interbank money market had risen to 7500% . The interest rate risk that come into existence with the November 2000 Crisis had transformed itself a combination of interest and foreign exchange rate risk in the February 2001 Crisis and brought a harsh economic crisis with it (Turan, 2011: 72).

Since the activities of Banking Regulation and Supervision Agency had put some serious pressures upon the banks, they started to demand foreign exchanges from the Central Bank in order to meet the borrowing requests of public sector. As the Central Bank had answered the foreign Exchange demand of banks in a positive way, the result was the decline of Turkish Lira supply in the markets so that the interest rates started to rise. As a natural result of this situation, high inflation rates had risen the risk of banks which were holding treasury securities in large volume. Therefore, as the interest rates went up the value of bonds started to fall so that the banks took a financial bath. Following these developments the Central Bank kept its silence against the rise in interest rates and took no action so that the banks which were made investments to treasury securities made a great loss. Thus, a certain liquidity squeeze had come into question and reciprocally this problem paved the way for the interest rates to rise even greater. As the interest rates started to rise quickly the foreign investors who were made their investments on treasury securities started to run off and that led to an extreme foreign exchange demand on the markets. Consequently, losses of the banks which were made their investments on treasury securities went beyond the borders and the interest rates had

reached upon almost to 1000% as a result of the declining liquidity and because of the investors who thrusted into the foreign currencies and wanted to close their open positions (Özsoylu, 2016: 268-269).

One of the most significant factors that contributed to the 2001 Economic Crisis was the foreign Exchange demands made by banks from Central Bank in order to close their open positions and the extreme rise in interest rates due to the liquidity squeeze.

As of 21 February 2001 – the day which was also called Black Wednesday in the economy history of Turkey – remarked that the effectiveness of Central Bank on money policy and liquidity control would no longer be paid attention. The banking sector in Turkey had to face and thus bear a heavy risks of liquidity, interest and currency. Hence, the money and foreign Exchange policies of Central Bank had been proved to be wrong and unsustainable. Therefore, it was decided and announced the launch of the floating rate regime in the following day. During this period, Turkey had to cope up with the most important economic and financial crisis in her history in terms of convertibility of banking system and loans. Payments system had collapsed and the operations on stock markets as well as money markets had stopped since the banks, especially the public banks could not perform their responsibilities adequately (BDDK, 2010).

Another factor that brough forth the crisis was the budget deficit which was around \$2.3 billion USD in the first quarter of 2001 and then jumped into \$3.3 billion USD in the following quarter. It was also expected that the Turkish Lira would be devaluated when the budget deficit touch upon \$10 billion USD and these expectations along with the rumours had shaken the confidence agains this program (Kazgan, 2002).

Lastly, the final factor that had a potential to create this crisis was the issue of trust. Collapse of Demirbank which was one of the leading banks of the time along with the other small scaled ones had put the investors in a considerable trust issues. It was also realized that the domestic borrowing figures of the government were not the real figures and the loss of public banks were way high beyond the announced figures. In addition the trust issues between the banks also contributed for the upcoming problems in financial intermediary operations as a result of which the overnight interest rates had risen to three digits. Therefore, the risk sensitivities of banking sector over the market risks had become much more observable. As a

result of this crisis the financial structures of the banks as part of SDIF (Saving Deposits Insurance Fund) had gone quite negatively due to the extreme rise in interest rates, especially the overnight interest rates (Özsoylu, 2016: 271).

2001 Economic crisis had brought an end to a significant number of enterprises along with the banks and led to a massive unemployment. This period had also witnessed the climax of the borrowing rates and it should be noted that this period also became a critical milestone for the political economy of Turkey because unlike the previous economic crisis which were mostly effected the workers and low income household, this crisis had put all of its impacts upon the whole society and the biggest economic shrinkage in Turkey's history had been recorded in this crisis. Additionally, the financial cost of the crisis had caused extreme losses in the economy (Şenses, Öniş, & Bakır, 2015: 376).

For example, a considerable amount of working places along with 19 number of banks unfortunately had collapsed and almost 1.5 million of employees had lost their jobs while the inflation rate were around 70% the whole economy had tighten 9.4% compared to the previous years. In addition to these the interest payments of Treasury had risen 100% while the domestic debt stock had also risen four times since the previous year. Many regulations had been implemented after the crisis (Öztürk & Aras, 2011: 328).

As a result of all these developments, IMF had enforced Turkey to announce another program which was called Transition to the Strong Economy Program in order to bring a stable growth atmosphere. By the virtue of this program Turkey had implemented the start of floating currency rate regime and the Central Bank was given an autonomous status whose main purpose was determined as to keep the price stability. Therefore it was planned to use the monetary policies for the price stability rather than the finance of public budget (Kabadayı, 2013: 101-101).

Reforms which were implemented after the economic crisis had served generally to the economy itself. However, the underlying purpose that laid at the bottom of those reforms also brought attention to a powerful regulations that would put decisions onto financial sector. It can be said that the substantial changes after the crisis embraced the intensification of Central Bank's independence along with the transparency in public finance and the rise in the number of regulatory institutions in economy. Especially the policies aiming to provide a monetary discipline and stability along with a strong fiscal discipline had consisted of the improvements in the tax administration and abolishment of extra budgetary funds. Moreover, a further steps

concerning revival of privatization programs and the removal of administrative obstacles in front of the agricultural support credits and direct foreign investments had been achieved through the liberalization of economy (Şenses, Öniş, & Bakır, 2015: 377).

3.2.4. Years Between 2003 and 2008

Justice and Development Party which came to power at the end of 2002 could perform a successive economic achievement in its first 6 years in power by virtue of the monetary backing given by IMF program and also by the structural reform moves realized on the areas of banking sector and ensuring the monetary discipline (Eğilmez, 2015).

Decision makers of Turkish economy put some decisive steps in order to get the country out of crisis in 2003 and as a result of these initiations Turkey had entered into a period of strong growth with the help of international environment. With the application of tight monetary and fiscal policies together with the structural reforms which would make the economy much more flexible, effective and productive while ensuring the sustainability of macroeconomic stability the environment of confidence could have been achieved in this era (Acar, 2013: 18).

The environment of confidence created by the political power in Turkey after the elections had paved the way for the improvements in tight monetary and fiscal policies and concentration on successful foreign trade as a result of which the year 2003 had become a year in which the economic stability along with the structural improvements and economical growth could be achieved. National income had increased from \$181 billion USD to \$239 billion USD while the per capita income had also increased from \$2598 USD to \$3383 USD. It can be said that Turkey could achieved a growth performance higher than the expectations because the Turkish economy had growth 7.4% in the first quarter and 3.6%, 5.6% and 7.2% in the upcoming quarters respectively. The fundamental principles that lay behind the economic program signed with IMF was to strengthen the fiscal structure of Turkey since it had lost its ability to pay and credit worthiness in order to follow a sustainable borrowing policy. The most significant factor of this policy was to ensure that consolidated public sector to give a 6.5% of non interest supply of national income. Therefore, it would not be wrong to assume that the economic program was mainly focusing on public finance. Within the framework of these evaluations it should be asserted that developments on public finance side was quite determinative in terms of Turkey's economic situation and concordantly the public authority's spendings on public incomes as well as the borrowing issues were restricted in terms of its flexibility (MÜSİAD, 2004: 12).

There were couple of factor for the decline of inflation which could be listed as the development of public sector's fiscal performance as the consolidated budget being in the first place in 2003, development in expenditure conditions and the strengthening of Turkish Lira which paved the way for interest rates to decline, regression in real wages, substantive levels in domestic demands and the positive progress in the prices of food and energy products. Another contribution for the decline of inflation came from the Central Bank with its policy of implicit inflation targeting. As the Central Bank hold the monetary base and short term interest rates of money supply under its control, it slowed down the money flow and made a significant contribution in this issue (MÜSİAD, 2004: 14).

The most distant recovery concerning the indicators in 2004 had been achieved in the area of public finance where the consolidated budget had performed a much more significant performance than it was expected. In addition to the monetary discipline conception which was backed up with the structural progress, the monetary authority could only focus on inflation in the policy decisions with the help of Central Bank's independence. Regardless of the cost pressure that happened intermittently, the Central Bank could ensure its reliability in money policies so that the year 2004 had become a one that could procure the inflation targeting. On the other hand the year 2004 had also witnessed the protection of the gains that were achieved the two previous years and it also witnessed the deepening of the developments in macroeconomic indicators. Thus, despite the negative foreign conjuncture that came to surface from time to time within this year, Turkish economy did not make concessions to its policy of low inflation and high growth (TÜSİAD, 2004: 8).

By the year 2005, Turkish economy had achieved a 7.6% in the growth rate exceeding the 5% purpose determined in previous year so that starting from the first quarter of 2002, Turkish economy had achieved an uninterrupted growth in a row of 16 quarters. For this growth it could not be negated that the stability and environment of confidence had been determinative factors. On the other hand the increases in the value added concerning the sectors of agricultural, industry, construction, trade, transportation and service had been important as well as the increases in the private consumption and expenditures in private and public investments. Depending on the growth in economy and gaining value of Turkish Lira against the US Dollar the per capital income had increased to \$5008. Fixed capital investments of public sector in the current prices had increased 36.2% while the ones belong to private sector 22% in 2005. But in real terms the increase was 28.6% concerning the fixed capital investments of public sector while the latter had been realized as 18.2% (TOBB, 2006: 9-11).

As a result of the negotiations held by Turkish authorities and IMF officials in 2005, 19th stand by agreement that was comprising the years between May 2005 and May 2008 had been accepted and came into force. With this agreement it was aimed to reinforce the successes achieved in economy as well as to reinforce the convergence process of Turkish economy with the European economies. For this reason it was planned to continue the tight fiscal policy and to decrease the debt stock, to adapt open inflation targeting in order to secure the independence of Central Bank to be able to keep the inflation in the low digits, to implement the banking law in order to preserve the stability of financial sector and make it much more powerful so that the public banks could be restructured and accelerate their asset sells, to focus on the improvements of the qualities of public spendings and tax system as well as the social security system by shrinking the volume of unregistered economy and decreasing the unemployment, to increase the strength of economy's resistance against the foreign shocks (TOBB, 2006: 8).

It could be said that the period between 2002 and 2007 has witnessed high growth rates in economy along with considerably high increases in the rates of exportation and production while the inflation rates had fallen and fiscal discipline had been ensured relatively. Any problem concerning the finance had not occurred by means of global liquidity excess in the pre crisis period even though the current account deficit of Turkey were deepening in the structurally growing periods (Acar, 2013: 18).

However, the structural reforms that were put into execution in Turkey after the 2001 Economic Crisis had strengthened the public finance and the infrastructure of banking sector. And the government took some series of measures in order to reduce the effects of global crisis. With the help of tax supports given by government the real sector got out of the crisis with considerably a little loss. Some of the measures given by government could be listed as the law on repatriation of capital, making installments for the tax debts, making discounts for special consumption taxes and value added taxes and a law concerning the exemption of corporation income tax had been enacted for small and medium sized enterprises. Another caution that was taken in that period considered the supports on employment. Increasing the share of unemployment pay and educative courses on entrepreneurship given by Turkish Employment Agency (İşkur) can be given as examples in order to get rid of the unemployment (Acar, 2013: 18).

On the other hand most obvious and notable development in Turkish economy concerning the period of 2000s was the high and continuous growth rate despite the Economic Crises of November 2000 and February 2001. Average growth trend had been 6.5% starting from the first quarter of 2002 and lasted in the fourth quarter of 2008 (Alpaydın & Tunalı, 2011).

Comprising the period between 2006 and 2009 in Turkey, the average growth rate of GDP was 1.9% annually while this figure was 1.87% for industry sector and 2.37% for agricultural sector. However, at the end of 2009 the share of agricultural sector and industrial sector within the GDP had fallen respectively to 8.2% and 18.8% while the share of service sector was around 73%. The growth rate of GDP in the last quarter of 2008 was 0.7% due to the effect of global financial crisis and the economic constrictions in Turkish economy. However, GDP growth rate had been realized in a negative way due to this global financial crisis which affected most of the economies both in international and national level. Therefore the growth rate of industry sector was recorded as -6.9% while the growth rate of GDP was recorded as -4.7% (Çoban, 2017: 140).

Average growth rate of Turkish economy in the post-2003 period had been realized as 4.8%. However, the growth rates had followed a quite volatile path especially after the period of economic crisis happened in 2000. Unemployment had been a structural and an old problem of Turkey. One of the leading reasons that feeds this problem is the uncontrolled increase in population. Along with this increase in population shift of the working force to the nonagricultural sectors also increased the importance of this problem. Frequently happening economic crises were also another cause of the unemployment. When we look at the immense change in unemployment concerning the period between 2000 and 2008 it has become so obvious that there was not any big changes in the labor force participation rate although the unemployment rate had increased from 6.5% to 10.3% respectively from 2000 to 2002. However, there is no doubt that the fundamental reason for this rapid increase was the 2001 Economic Crisis. The absolute effect of this crisis with regards to unemployment was so harsh but nevertheless in 2006 the unemployment rate had retreat. Altogether it started to increase since the second half of 2008 due to the global financial crisis and the unemployment rate in Turkey broke a records and grew into 16.1% in 2009 (Özsoylu, 2016: 335).

Even though the positive developments and growth rates achieved in Turkish economy were not reflected to the employment issue in 2006, the unemployment rate had fallen to 10.2% compared to the previous year and the number of workers employed in agricultural sector had

also fallen in 2006 compared to 2005. Yet again the slowdown in growth rate and the constriction in agricultural employment had put a negative pressure upon the job growth and the unemployment rate had been recorded as 10.3% in 2007. Employment decrease that hit the agricultural sector had continued during 2007. Due to the global financial crisis the growth rate had slowed down in the last quarter of 2008 and put another negative pressure upon the increase in employment so that the unemployment rate was recorded around 11% in 2008. As this constrictions reflected themselves also in employment, the employment rates in industry sector also decreased but on the other hand the rates in agricultural sector increased. Global financial crisis had penetrated into the all corners of the world and its effects had continued during 2009 which led the unemployment rate to be recorded as 14% in Turkey (Çoban, 2017: 147).

While the total number of unemployed people in Turkish society had been increasing the exact number of unemployed people who were older than fifteen years old were recorded around 2 million and 654 thousand and the figure was recorded as 9.1% in 2014. Non agricultural unemployment rate on the other hand had been forecasted as 11.1% while the youth unemployment concerning the ages 15-24 were recorded as 16.7% and the age margin between 15-64 were recorded as 9.3% (TUİK, 2018).

However the labor force participation rates remained to stuck under the European Union average and recorded as 51.3%. On the other hand the unregistered employment were still on the high levels and the total number of workers who were working without being registered any social security institution in June 2014 were recorded as 36.4% while this figure was 83.6% in agricultural sector it was 22.8% in non agricultural sectors. Within the scope of struggle against inflation Turkey had left the implicit inflation targeting between the years 2002 and 2005 and accepted the open economy inflation targeting regime beginning from 2006. In this context the Central Bank had determined its inflation targets as 5% for 2006, 4% for 2007 and 7.5% for 2008. However the rapid decrease in inflation happened in 2005 had become reversed in 2006 due to the supply shocks in 2006 and the depreciation in Turkish Lira. CPI in 2006 had increased to 9.65% and PPI on the other hand had increased to 11.58% compared to the previous year. The effects of strong monetary tightening which was enacted in 2006 concerning the inflation in 2007 were become so keen that the CPI had fallen to 8.39% while the PPI had fallen to 5.94%. Nevertheless the global economic crisis in 2008 had become so determinant upon the inflation and with the influence of food and energy prices the CPI inflation had increased 10.06% in 2008 compared to previous year while the

PPI had increased 8.11%. But these two rates had fallen in 2009 in proportion to the previous year and happened respectively as 6.53% and 5.93% (Çoban, 2017: 141).

3.2.5. 2008 Economic Crisis and The Medium-Term Programme of 2009

2008 global financial crisis that has started in US then jumped onto European countries led to serious economic shocks. Since the foreign trade between Turkey and most of the European countries constitutes a major importance, the countries which were effected by the global crisis had decreased their commerce with Turkey so that Turkey's current account deficit has increased as well as the increases in unemployment and deterioration in macroeconomic indicators. Devastating effects of this global crisis had been experienced starting from the second half of 2008 till the end of 2009 with the negative impacts on national income and unemployment (Kutlu & Demirci, 2011).

Growth rates had showed a sharp decline both in 2008 and 2009. While growing 6.9% in 2006 and 4.7% in 2007, Turkish economy had showed a growth performance as 0.66% in 2008. However, in 2009 the Turkey economy had decreased 4.7%. On the other hand the industrial production constituting the one fourth of total GDP had also declined starting from the second quarter of 2008. For example the rate of capacity utilisation of manufacturing industry had declined from 80.3% in 2008 to 63.8% in 2009 (Ertuğrul, İpek, & Çolak, 2010). However, this rate had increased to 70.4% in May 2009 and it can be said that the effects of the discounts made on special consumption taxes and value added taxes had put some serious contributions for the improvements (Alptekin, 2009).

While the main reason for the crisis was the overvaluation of prices and bubbles, the negative expectations concerning the future and the panic atmosphere had deepened the effects of crisis. Nevertheless with the operations that were undertaken in order to save the economy it was ensured to rescue the system by creating positive expectations. However as the panic grew the number and cost of these operations grew at the same time. Delay in the announcement of austerity program against the crisis in Turkey had made a great contribution for the expectations to get effected in negative manner. Leading principles in order to prevent the devastating effects of global crisis within the context of austerity program can be mentioned as the making installment for the unpaid tax claims that became due, bringing the money of Turkish citizens abroads within the borders of country, giving the authority to Council of Ministers to guarantee the accounts, reducing the withholding rate to 0% in stock purchases and sales, supplying credits without interest for the small and medium enterprises

through Small and Medium Enterprises Development Organization, creating resources for banking sector by reducing the required reserve ratio of Central Bank, supplying new credits for tradesmen and industrialists, reducing the employer's national insurance contribution as 5%, increasing the credits of Eximbank and strengthening its capital (Ertuğrul, İpek, & Çolak, 2010).

Since the banking sector in Turkey had been strengthened with the decision taken right after the 2001 Economic Crisis, this global financial crisis did not hit Turkey inasmuch as it hit USA and other Western countries. Besides the banking sector had been applying the Basel Criterias and made great achievements in terms of financial stability. However, it would be quite wrong to assert that this crisis did not effect Turkey (Apak & Aytaç, 2009: 218).

Despite the fact that the some serious steps were taken towards ensuring the financial stability it was impossible for Turkish economy to get over this crisis with zero loss. As the production regressed back the unemployment came together with it. It is not possible for the exportation not to get harm from the unstability in global scale. In addition, depending on the insufficiency of savings in countries such as Turkey there have been always a need for the foreign resources in order to sustain the growth rate because the slowdown in capital movements would bring a depression of resources. Banking sector had a great role to provide the financial stability in Turkey. Within this context it is asserted that the banking sector had accomplished a great success in terms of financing the economic activities (Arıcan & Tanınmış Yücememiş, 2015: 61).

Government of the time had announced a Medium Term Programme which covers the upcoming three years in order to put the country a strong and sustainable growth process. According to this program, Turkish economy would enter a process of growth in 2010 and from 2011 on its growth impetus would be accelerated. In addition the current global conjuncture was evaluated as an opportunity to speed the required structural reform process. While it was stated on the Meditum Term Programme that the private sector would be the locomotive for overcoming the crisis and leading the afterwards by increasing the competitive power among the companies, it was also stated that the developments in growth and fiscal balances would be made permanent with the application of an all embracing structural reform program. In addition to these, some of the main purposes of that programme can be summarized as the adoption of fiscal rule policy, directing the public account expenditures for the primary areas, activating the priorities in public investments, popularizing the public-

private sector cooperation model in the finance of investments, activating the health and service expenditures, decreasing the tax losses and tax dodgings and promoting flexible employment models (TOBB, 2010: 14).

The absolute effects of the global crisis had also been stated in the Medium Term Programme. According to this, the uncertainties in economies along with the breakdowns in the environment of confidence not only in Turkey but also in all around the world had effected the investment decision of countries and slowed down the economic activities. The global crisis had put some limitations upon the production capacity of Turkey so that GDP had decreased 6.5% in the last quarter of 2008 (Yurdakul, 2015).

As the relations with IMF and EU had gone bad in 2009, reforming dynamism in Turkish economy as well as her economic performance had been regressed. Importance given to IMF agreements by both domestic and foreign investors had serious importance on the determination process of expectations (TÜSİAD, 2009: 21). However the growth process which lasted almost 7 years in Turkish economy had given its place to a 4.7% of recession in 2009. Apart from the finance sector all others sectors had entered a process of recession. Private sector, on the other hand, had experienced a loss of production along with the finance problems. Increase in the risk senses of banking sector and the reduction of foreign credits had effected the domestic credit volume in a negative way in 2009. Slowdown in the credit flow towards the private sector also led to the problem of finance. Besides, the general slowdown that happened in economy caused the employment rates to fall. Recession in investments and domestic market had reshaped the unemployment figures as 3.5 million people while on the other hand there were approximately 2 million people who were not registered in to the list of jobseekers but ready to work. However, the efforts with regards to support the real sector and restrict the recession on growth especially after the second quarter of 2009 had revived the domestic expenditure. Turkish economy had shown a growth-like indicators since the last quarter of 2009 and it should be said that the revival in the domestic expenditure and renewing the diminishing stocks as well as the public spendings had constituted the basis (TOBB, 2010: 4-5).

3.3.From 2010 Onwards

Economic recovery had also been proceeded in the first quarter of 2010. In this period, a significant rise in the added values had been achieved in sectors such as industry, construction, trade and transportation. On the other hand the recovery in demand side had been derived from the special consumption and rapid increase in investments. Rise in stocks also contributed positively to the growth. As a result of these developments GDP growth had been 11%. As the economic activities had shown an increase more than the expected concerning the first half of 2010 had decreased the uncertainties and unemployment to a certain extent. Unemployment rate in 2010 had been recorded as 11.9% while the non agricultural unemployment was 14.8% and youth unemployment was 21.7%. Starting from the first months of 2010 importation had also entered into increasing trend as parallel to the rise in production and domestic demand. Rise in the international good and energy prices along with the valuation of Turkish Lira in real terms also contributed in that sense. However, no problem had been faced with the finance of current account deficit in that period because the rate of exports meeting imports were 72.5% in 2009 and it had been decreased to 61.4% in 2010.

Exact implementation of the measures that take place in Medium Term Programme and the recovery of whole economy much before the expected term had continued along with the developments in the indicators of public finance. As the tax revenues had also increased further the expected levels together with the economic recovery process along with the recoveries in the central administration budgets, budget deficit to GDP rates had been decreased from 4.8% to 3.6% in 2010. Not only that but also as a result of policies implemented against the crisis and the resistance that the economy performed the credit note of Turkey had also been increased by four different rating institutions which made Turkey a less risky country in the eyes of investors (TOBB, 2011: 16-17).

Strong structure of banking sector and the recovered public finance balances in a sustainable way along with the high growing rates had become a basis for the realization of purposes in the upcoming years. Economic recovery after the global crisis along with the high commodity prices the inflation rate in developing countries including Turkey had gone upwards especially in the third quarter depending upon the developments in foreign exchange. While these developments were mainly derived from the increase in the prices of fundamental goods the main trend of service sector's inflation had gone much more moderate in 2011 (Özkaramete Coşkun, 2012).

The dependency of Turkish economy to foreign savings has become an economic weakness since 2011's income ratio had reached 10% of the current account deficit. In the year 2011, there has been running precautions for this matter by the policymakers. Firstly, central bank tried to control the domestic loan supply by swaying the agency costs, then the Banking Regulation and Supervision Agency took measures that may directly affect this supply. Ultimately, some other steps were taken to control domestic demand through taxes. In the first three quarters of 2012, GDP growth figures were 3.4%, 3.0% and 1.6%, respectively, compared to the previous year. In terms of external demand, imports of goods and services continued to decline compared to the previous year, which contributes to the total growth figure (TÜSİAD, 2012: 12-13).

Towards the end of 2012, there was a relative recovery in employment growth. Registered employment increased by 6.6% in September compared to the same period of 2011. On the other hand, in the first three quarters of 2012, the budget balance was despite a relative improvement in November, it has shown a general deterioration. Looking at the sources of the this deterioration, the first three quarters show a decline in all tax revenues. The tight liquidity policy implemented in the first half of 2012 was replaced by a progressive economic activity in the second half of the year. The Central Bank increased the liquidity given to the market by mid-year and allowed short-term interest rates to remain close to the lower limit of the corridor (TÜSİAD, 2012: 19-21).

With the rebalancing policy in economy which was implemented in 2012, Turkish economy had achieved a growth rate of 3.7% in the first half of 2013 by the help of domestic demand. Due to the export figures following a horizontal path in that period which depended on the weak global demand, while the contribution of foreign demand to the growth rates had been diminishing the contribution of domestic demand had increased. In 2013, public debt dynamics remained strong. As a result of the favourable public debt management policies, fiscal discipline and the positive view of macroeconomic indicators, the public debt burden continued to decline and the real cost of borrowing had been realized on the low levels while the average maturity of debt stock had been prolonged and the share of interest and foreign exchange sensitive debt securities in the debt stock decreased. Inflow of capital movements, the positive outlook for developing countries and the macroeconomic stability in the domestic financial markets followed a positive trend in the first five months of 2013. Pricing of price expectations in the country and the expectation of a decline in the policy rate supported the positive climate. In the first five months, the decline in interest rates, the excess in the

exchange rate and the increases observed in the IST-100 index were observed (Maliye Bakanlığı, 2013: 1-3).

Although there were positive developments in terms of long-term investments in the second quarter of 2013, capital outflows in emerging markets as well as volatility in exchange rates hampered short-term recovery in private sector investments. The fact that the increase in domestic demand during the period in question did not create an adequate revival in private sector investment expenditures limited the growth in the first half of 2013. Seasonally adjusted GDP grew by 1.5% in the first quarter of 2013 and by 2.1% in the second quarter compared to the previous quarter of 2012. Along with the moderate recovery in domestic demand, there was a relative improvement in employment in 2013. According to seasonally adjusted data, 776 thousand additional jobs were created in the first half of 2012 compared to the same period of the previous year, while in the first half of 2013, 795 thousand people were employed in the same period compared to the same period of the previous year (Maliye Bakanlığı, 2013: 30-45).

In this period, despite the increase in employment, the labor force participation rate increased faster and the unemployment rate prevented the decline. The headline unemployment rate, which saw the lowest levels of the last 11 years as of the end of 2012, was 8.8 percent as of June 2013. On the other hand, despite the employment increases in the industry and services sector, non-agricultural unemployment rate increased by 0.8 points to 11 percent in June 2013 compared to the same period of the previous year. Central government budget improved significantly in the first eight months of 2013 compared to the same period of 2012. In spite of the increase in non-interest budget expenditures, the increase in tax revenues and the increase in the privatization revenues together with the recovery in domestic demand were the main elements of the improvement observed in budget performance in 2013 (Maliye Bakanlığı, 2013: 46-59).

Global developments in 2014 affected Turkish economy both positively and negatively. Falling oil prices provided a noticeable improvement in the foreign trade deficit. On the other hand, European countries, which are the main trade and investment market, still struggling with the stagnation. The ongoing turmoil in the surrounding geography have negatively affected Turkey's export performance as well as the domestic consumption and investment activity. As a result Turkish economy showed a performance below expectations. Thus it grew 2.9% in 2014. On the other hand Turkish economy was able to create 1.3 million new

jobs by 2014. Thanks to the protection of fiscal discipline, the ratio of budget deficit to national income remained at 1.3% The ratio of public debt stock to national income declined to 35%. The decline in oil prices has a bi-directional effect on Turkey's external balance. The decline in energy prices has a positive effect on imports and current account deficit. However, the fact that the oil exporting countries constitute more than half of Turkey's foreign market, approximately one third of the tourists coming to Turkey are citizens of these countries and the majority of the works that the contracting sector performs abroad have caused a decrease in foreign revenues too (TOBB, 2015: 3).

Along with the macro prudential measures that came into force in October 2013 and February 2014 aiming to reduce the domestic demand, Central Bank had also risen the interest rates. As a result the demand for consumption had been limited while the domestic demand increase had remained on a certain level. Investments were negatively affected by these developments. These developments in consumption and investment expenditures had a restrictive effect on economic growth. In 2014, there was an increase in exports despite the pressures stemming from the ongoing geopolitical problems in neighboring countries such as Iraq, Russia and Syria. Depending on these developments, the growth was largely driven by exports and external demand (TOBB, 2015: 19).

On the other hand the ongoing geopolitical problems with Russia had a negative impact on the tourism in Turkey. In 2014, the number of citizens arriving in Turkey decreased by 23.6 points to 6.1%. The rate of increase in tourism revenues decreased by 5.2 points to 6.2%, while the tourism expenses increase rate decreased by 10.3 points to 4.1%. In 2014, tourism revenues amounted to USD \$34,306 million and tourism expenditures amounted to \$ 28,836 million. In 2014, private consumption expenditures increased by 1.3% and public consumption expenditures increased by 4.6%, thus total consumption expenditures increased by 1.8%. Public sector fixed capital investments decreased by 8,8% and the growth rate of private sector fixed capital investments remained at 0,5%. Total fixed capital investments decreased by 1.3% depending on these changes. GDP per capita, which was \$ 10,822 in 2013, declined by 3.9% in 2014 to \$ 10,404. Housing sales, which increased by 64.9% in 2013 compared to the previous year, slowed down significantly in 2014 and increased by 0.7%. In 2014, there was a total of 1,165,381 residential sales in Turkey (TOBB, 2015: 19-20).

Despite the rising geopolitical risks in the global economy and the ongoing problems in recent years Turkish economy has outperformed many countries and has realized a growth rate of

4.0% in 2015. The biggest contribution to growth came from the increase in domestic consumption. The increase in public expenditures on the other hand also contributed to the growth. In this period, uncertainties in domestic politics along with the two electoral periods caused investors to be reluctant in their investment decisions and restricted the growth in private investment expenditures. There was a decline in exports due to ongoing structural problems in the Euro area economies along with the lack of stable growth and the decline in the Euro/Dollar parity and the ongoing geopolitical problems in our neighbors Iraq, Russia and Syria as well. Therefore, the contribution of exports to growth was negative. As of 2015, Turkey's economy grew 4.0% in the main sectors. The agricultural sector grew by 7.6% due to the favorable trend in climatic conditions, the services sector by 4.8%, the industrial sector has shown a growth of 3.3%. In 2015, private consumption expenditures increased by 4.5% and public consumption expenditures increased by 6.7%, thus total consumption expenditures increased by 4.8%. While the public sector fixed capital investments increased by 7.6%, the growth rate of private sector fixed capital investments was realized as 2.7%. According to these changes, total fixed capital investments increased by 3.6%. GDP per capita, which was \$ 10,822 in 2013, declined by 3,9% to 10,395 dollars in 2014 and 10,9% in 2015 to \$ 9,261. In 2014, housing sales increased by only 0.7%, while they increased by 10.6% in 2015 (TOBB, 2016: 23-24).

2015 was a stable year in which troubles were experienced in tourism and geopolitical problems had a negative impact on tourism income. The decrease in the number of tourists after the economic crisis in Russia became more evident after the airplane crisis with Russia and the security concerns affected the tourists from Europe and the Far East. Total tourism revenues, which were 34.3 billion dollars in 2014, decreased by 8.0% in 2015 and amounted to USD 31.5 billion. Thus, for the first time since 2010, when tourism revenues loss was 1.0%, total tourism revenues decreased (TOBB, 2016: 24).

Turkey has gone through a very difficult period also in 2016. This challenge has been driven not only by national and global economic developments, but also by strong winds coming from internal and external political air. It is seen that this challenging process, which some accumulated structural and some conjunctural developments have contributed, has not only suppressed 2016 but also 2017. Turkey has become the greatest victim of chaotic process took place in Iraq and Syria as becoming a home for millions of refugees. The increase of terrorist incidents in the country, a reduction of exports to this region and depending on them has paid a price, such as decline in tourism revenues. Turkey's economy in 2016 has been under the

shadow of the negative global conditions and the Middle East crisis with Russia. In addition to this, the coup attempt of Fetö terrorist organization occurred on 15 July and for the survival of country the state of emergency was declared. The coexistence of such negativity inevitably prevented the realization of economic activities (EBSO, 2017: 20-21).

The growth rate, which is the most concrete indicator of the development in economic activities, was realized as 2.2% in the nine-month period of 2016 despite such negative global conjuncture. However, the contraction in the economy by 1.8% in the third quarter and a low growth rate in the fourth quarter will keep the annual growth rate below 3%. As a result of the slow growth of the economy, total employment increased by 411.000 people and the number of unemployed people increased by 500.000 people in the period of 2015-2016. Another result of the slow growth of the economy has been seen in the field of foreign trade. As a matter of fact, in the first 11 months of the year, exports decreased by 1.7% and imports by 4.7%. As a result of the further decline in imports, foreign trade deficit and consequently the current account deficit declined. The most important development to be remembered in the economy in 2016; there will be high increases in exchange rates. In addition to the slowdown in the external resource inflow, there was a demand for foreign currency, which is seen in the last months of the year, especially due to the interest rate hike of Fed, as well as the foreign exchange demand of the real sector with a foreign exchange position deficit (EBSO, 2017: 21-22).

Medium-Term program which was introduced in 2017, covering the period of 2018 to 2020, the growth rate for Turkey's economy was estimated as 5.5%, but it has reached a growth rate of 7.4% at the end of the year. Turkey's economy has been the fastest growing country among the G20 countries. Credit facilities, tax cuts, employment incentives, revival in domestic consumption and investments, low base effect and revival in global economies contributed to this high growth rate in 2017. In 2017, the value added of the agricultural sector increased by 4.7%, the value added of the industrial sector and the value added of the construction sector increased by 9.2% and 8.9%, respectively. The value added of services sector, which consists of trade, transportation, accommodation and food service activities, increased by 10.7% and the value added of other service activities increased by 5.5%. GDP per capita, which reached its highest level in 2014 with \$ 12,480, entered a downward trend after this year. In 2015, it decreased to \$ 11,019, to \$ 10,883 in 2016 and to \$ 10,597 in 2017. The rapid increase in the dollar exchange rate is considered to be effective in the decline in GDP per capita (TOBB, 2018: 23-24).

The construction sector, which is one of the important sectors of the economy, was affected positively by the increase in urban transformation practices and branded mixed projects in 2017. Housing sales increased by 5.1% in 2017 due to discounts on bank loan rates and the impact of campaigns initiated to accelerate the sector. In 2017 the ongoing disappearance of the negativity surrounding geography except war and a significant improvement in the tourism sector through the normalization of relations with Russia and the number of citizens arriving in Turkey increased by 12.6%. Tourism revenue increased by 18.9% to 26,284 million dollars (TOBB, 2018: 24).

At the end of 2017, inflation stood at 11.92%, 6,92 points above the target. The Central Bank points out the main factors affecting the realization of inflation as the high depreciation in the Turkish lira, along with the rise in import prices, the developments in food and non-alcoholic beverages prices as well as the strong course in economic activity, showed the increase in medium-term inflation expectations and the deterioration in pricing behavior. In November 2016, the Central Bank of adopted a monetary tightening due to the increase in global uncertainties and the risks arising from the fluctuations in exchange rates. Monetary tightening has been strengthened in January 2017 to limit the deterioration in the inflation outlook as the continuation of excessive mobility in exchange rates posed an upside risk on inflation (TOBB, 2018: 25-26).

Concerns for reasons such as terrorist incidents, failed coup attempt and geopolitical tensions in 2016 have decreased in 2017, continuing the growth of the economy increased capital inflows. ISE 100 Index completed the year 2016 with a level of 78.138,7 and closed the year 2017 at 115.333. The total transaction volume of ISE increased by 44.8% in 2017 from TL 1,013,562 million to TL 1,468,001 million. In the Medium Term Fiscal Plan (2017-2019), it is stated that fiscal policy will be implemented in accordance with the main objectives and priorities of economic policy in order to protect the economic stability, to increase the growth potential, to keep the current account deficit under control, to contribute to the promotion of domestic savings and investments. While maintaining the sustainability of fiscal policy, it is aimed to protect the achievements in the field of public finance and to reduce the public sector borrowing requirement. It is also aimed to allocate the central government budget resources in line with these objectives and to use them economically and efficiently. It is stated that financial discipline will continue to be supported by structural reforms (TOBB, 2018: 27).

DATA AND METHODOLOGY

In this thesis annual data of Gini coefficient from 2002 to 2017 has been used as the dependent variable in order to measure out the income inequality. As the harsh effects of financialization upon the wages come largely from this side we decided to use the Gini coefficient data that is available from 2002 till 2017 ranging from 0 between 1 since the higher values signify high levels of income inequality.

The regression model adopted in this thesis uses the natural logarithm of Gini coefficient. Along with the Gini coefficient, the share of financial, insurance and real estate industries to GDP is also used as an explanatory variable since it has an inevitable effect upon the stagnation of wages. Besides, other explanatory variables such as unemployment rate, share of government spendings within the GDP as well as the share of imports within the GDP along with the minimum gross wage to GDP and the percentage of female labor force had been adopted to explain the income inequality.

It should especially be noted that the decrease in the real value of minimum wage in the course of time possesses a straight impact upon the income inequality. Because the decrease in the real value of minimum wage has a considerable relationship with the potential power of whole economy to pay. Thus, our model had adopted the gross minimum wages divided by the GDP per capita.

The percentage of women in the total labor force was also adopted as an explanatory variable in this thesis. Female employment increases the level of household income because it depends on the social classes of women that are working e.g. if it is generally the women of lower social classes then the inequality should decline and vice versa (Kuhn & Ravazzini, 2017: 116).

Another data which was used to measure the income inequality is the share of imports within GDP since the countries that have high amounts of trade openness are more liable to have lower rates of income inequality (Cerdeiro & Komaromi, 2017).

The share of government spending to GDP is also effective in determining the income inequality since the spendings about social transfers as well as the health and education are inclined to decline the income inequality but if it is applied to indirect subsidies then it could be said that the beneficiary of the latter would be the upper classes (Anderson, Esposito, Duvendack, & d'Orey, 2014).

Such explanatory variables like the rate of unionization of non agricultural workers and the rate of those who are older then 15 years old at least with high school degree cannot be used due to the insufficient data.

We believed that the rate of unionization among the non agricultural workers could be a strict data in order to measure out the strength of income inequality but since the electronic state service (e-devlet) has been started to used as of 2013 and the data base of e-union membership and Social Security Institution had not been matched exactly, it would not be true to use such data. With the introduction of this new way of union membership it was aimed to prevent the unrealistic and fake memberships. Therefore there had become a gap in collecting the exact data so that while the announced rate was 59.88% in 2009 concerning the unionization rate, in 2013 it was announced as 8.8%. (Erol & Aytur, 2018: 120).

Under the light of abovementioned explanatory variables, the multiple regression model which was tested through the Augmented Dickey Fuller Test within the context of this thesis can be written as below:

$$\begin{aligned} LnGini_c = & \beta_1 FemaleLF + \beta_2 FIRE + \beta_3 G/GDP + \beta_4 ImportShare + \beta_5 Unemployment + \\ & \beta_6 MinGrossWage/GDP + \varepsilon \end{aligned}$$

RESULTS

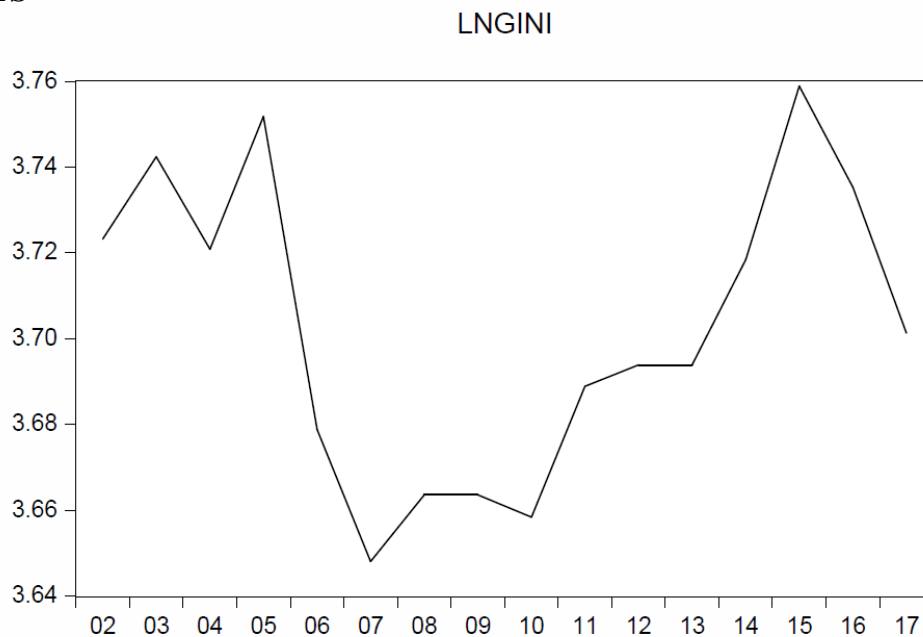


Figure 5: Ln of Gini Coefficient

Graph above shows the natural logarithm of the gini coefficient starting from 2002 and ending in 2017. As it can be observed in the graph that the income inequality in Turkey had reached its first climax on the period starting from 2002 i.e. the year was followed by the Economic Crisis of 2001 whose devastating effects also continued in the period of 2004-2005. On the other hand the second climax was reached in the period of 2014-2015 i.e. the period that Turkey tried to cope up with the rising prices of foreign exchange currencies.

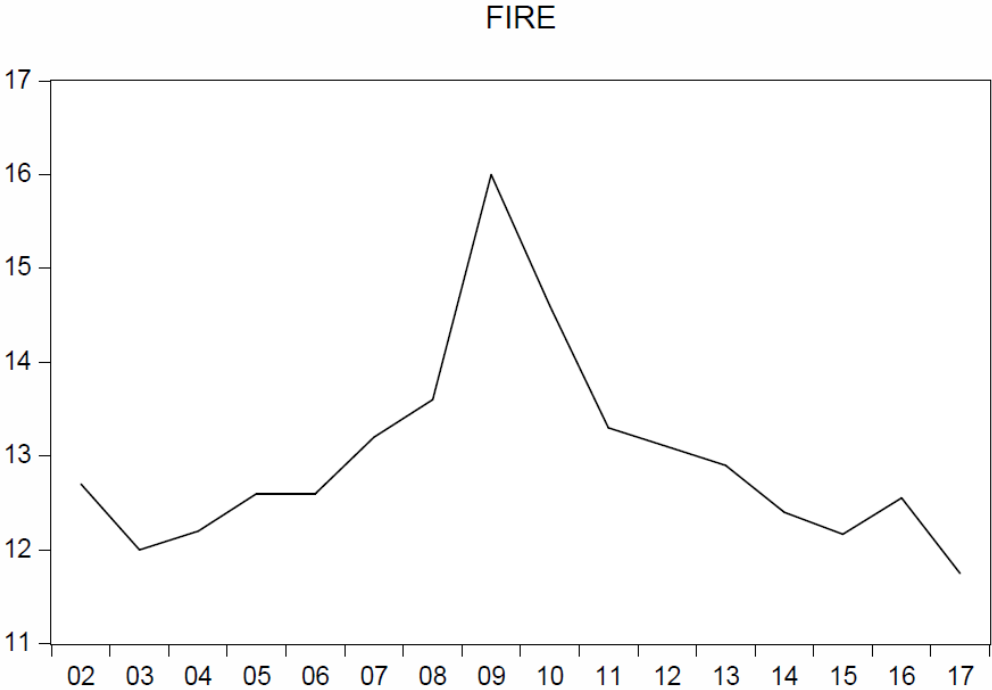


Figure 6: Share of Value Added to GDP by Finance, Insurance and Real Estate Sectors

Another dependent variable that was adapted in this thesis measures the trend line of financialization between 2002 and 2017. This figure also shows the value added to GDP by finance, insurance and real estate sector. Therefore, the data concerning FIRE sector signifies the risen eminence of Turkish financial sector, the growth of which in the period of 2007-2009 has come at the cost of real economy.

In order to understand whether the variables are stationary or not since all of the variables are nonstationary, we have taken the logarithmic differences of the variables and made them stationary.

Regression Results for DLN_Gini

Explanatory Variables	Coefficients	t-Statistics	Regression Statistics	
DLN_FemaleLF	0,2763	1,36	R-Squared	0,7937
DLN_FIRE	0,1314	0,74	Adjusted R-Squared	0,6389
DLN_G/GDP	-0,7779	-3,93***	F-Statistic	5,1282
DLN_GrossWage/GDP	-0,0011	-0,01	Prob(F-statistic)	0,0190
DLN_ImportShare	-0,2554	-2,77**	n	15
DLN_Unemployment	0,0833	1,39	DW [^]	2,5926
Intercept	0,0073	1,30		

[^] DW statistic after correction.

*** Significant at 1% level

** Significant at 5% level

Table 3: Discrete Changes in the Variables, Regression Results for *LnGini*

Concerning our econometric model which is shown in Table 3, it can be said that the explanatory variables of DLN_G/GDP and DLN_ImportShare bears significance respectively at 1% level ($p < 0.01$) and 5% level ($p < 0.05$) while the rest of the explanatory variables such as DLN_FemaleLF, DLN_FIRE, DLN_GrossWage/GDP and DLN_Unemployment are insignificant. It should be said that one percent change in DLN_G/GDP (government spending as share of gdp) variable will decrease the GINI coefficient as 0.77%. Therefore, it can be inferred that as the percentage of government spending on public necessities such as health and education increase the income inequality i.e. the income gap tends to decrease since the lesser figures of GINI coefficient signifies a lesser income inequality.

On the other hand, one percent increase in DLN_ImportShare will decrease the GINI coefficient 0.25% as well. It can be said that as the importation on some certain goods turns out to be a profitable operation in comparison with the domestic production of those certain goods, households would tend to spend less on those good which, as a result, also reduces the income inequality. F-statistics of the model in above table is 5.128205 which is also $p < 0.05$. Hereby it should be emphasized that the model is generally significant as the R^2 value is 79.36% i.e. the explanatory power of model is quite high.

Correlations, Levels of the Variables

	DLN_FemaleLF	DLN_FIRE	DLN_G/GDP	DLN_GrossWage/GDP	DLN_ImportShare	DLN_Unemployment
DLN_FemaleLF	1,000	0,061	0,242	-0,370	-0,261	-0,035
DLN_FIRE	0,061	1,000	0,859	0,558	-0,704	0,665
DLN_G/GDP	0,242	0,859	1,000	0,471	-0,699	0,546
DLN_GrossWage/GDP	-0,370	0,558	0,471	1,000	-0,408	0,465
DLN_ImportShare	-0,261	-0,704	-0,699	-0,408	1,000	-0,654
DLN_Unemployment	-0,035	0,665	0,546	0,465	-0,654	1,000

Table 4: Correlation Table

According to the above Table 4, all variables have high correlations with each other except for DLN_FemaleLF. In order to figure out the multicollinearity problem due to the high correlations, all of the variables had been extracted one by one and had been put into regression model again so that we can understand whether the results change or not.

OLS Regression for Discrete Changes, Robust Estimation

Explanatory Variables	Coefficients (t-Statistics)					
	1	2	3	4	5	6
DLN_FemaleLF	0,2763 [1,36]	0,2524 [1,28]	0,0091 [0,02]	0,2775 [1,70]	0,4579 [1,8]	0,2378 [1,12]
DLN_FIRE	0,1314 [0,74]		-0,3604 [-1,78]	0,1311 [0,79]	0,2003 [0,86]	0,2064 [1,16]
DLN_G/GDP	-0,7779 [-3,93]***	-0,6740 [-4,95]***		-0,7783 [-4,24]***	-0,6887 [-2,67]**	-0,8105 [-3,92]***
DLN_GrossWage/GDP	-0,0011 [-0,01]	0,0071 [0,08]	-0,0614 [-0,44]		0,0350 [0,30]	0,0054 [0,05]
DLN_ImportShare	-0,2554 [-2,77]**	-0,2650 [-2,97]**	-0,1962 [-1,33]	-0,2552 [-2,96]**		-0,3070 [-3,46]***
DLN_Unemployment	0,0833 [1,39]	0,0969 [1,74]	0,1112 [1,15]	0,0832 [1,47]	0,1500 [2,07]*	
Intercept	0,0073 [1,30]	0,0061 [1,16]	-0,0005 [-0,06]	0,0073 [1,38]	0,0015 [0,22]	0,0092 [1,61]
R-Squared	0,7937	0,7793	0,3942	0,7936	0,5960	0,7437
F-Statistic	5,1282	6,3594	1,1717	6,9229	2,6555	5,2240
Prob(F-statistic)	0,0189**	0,0085***	0,3930	0,0064***	0,0962*	0,0158**
n	15	15	15	15	15	15

Significant at ***1% level, **5% level, *10% level.

Table 5: Robust Estimation

According to the above Table 5, it should be stressed that first of DLN_FIRE has been extracted from the regression model and the results have not changed so much. Significant variables of DLN_G/GDP and ImportShare are still significant. However, as we extract the variable of DLN_G/GDP from the regression model as shown in the above Table, the results have been changed considerably. Especially the variable of DLN_ImportShare changed a lot

since its correlation with DLN_G/GDP is quite high and the change in its coefficient demonstrates that it is effected substantially.

Variable of DLN_GrossWage/GDP, on the other hand, has also been extracted from the regression in the above table and the results have not changed so much as the significant variables of DLN_G/GDP and ImportShare are still significant. As we extract the variable of DLN_ImportShare from the regression model in the above table, the variable of DLN_Unemployment has become significant at 10% level which means that the main reason concerning the latter for not being significant in the previous examples is the correlation between these two variables. Therefore it could be asserted that there is a problem of multicollinearity problem between these two variables so that DLN_Unemployment variable could also be a significant variable. Last of all, as we extract the variable of DLN_Unemployment from the regression model in the above table, the results have not changed so much.

CONCLUSION

Within the context of this thesis, an absolute answer has been looked for regarding the emergence of financialization and its effects upon the households in the latest decades of Turkey. Since the leading parameter of this question has appeared as the income inequality with regards to the gradually worsening economic situation and stagnation in real wage, we have adopted the GINI coefficient as the dependable variable.

According to our econometric model it could be said that the changes in DLN_G/GDP and DLN_ImportShare have become apparent as overbearingly explanatory variables for the changes in the natural logarithm of GINI coefficient. That is to say, in general, as the share of government spending to GDP increases i.e. as much as the government spendings on public sector increases, the income inequality tends to decreases since the lower figures of GINI coefficient signifies a less income inequality. It could also be said that the changes in DLN_ImportShare bears a potential to change the GINI coefficient. Since the same product can be imported with lower costs with regards to the production cost of that product, households tend to spend less on some certain goods. Therefore it could be asserted that the

importation on certain goods will favour households and will have a potential to decrease the income inequality to a certain extent.

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APPENDIX 1

Variable	Definition	Source	Accessed On
LNGINI	Natural logarithm of GINI coefficient	TÜİK	19.10.2018
DLN_FemaleLF	Percentage of the women in the labor force	World Bank	18.10.2018
DLN_FIRE	Share of value added to GDP by finance, insurance and real estate sector	OECD	18.10.2018
DLN_G/GDP	Government spending as share of GDP	OECD	18.10.2018
DLN_GrossWage/GDP	Minimum gross wage divided by GDP	countryeconomy.com, OECD	20.10.2018
DLN_ImportShare	Imports as percentage of GDP	World Bank	18.10.2018
DLN_Unemployment	Unemployment as percentage of total labor force	Hazine ve Maliye Bakanlığı	21.10.2018