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CONTENTS

	Page
Contradictions in Economic Theory and the Economic Modelling of the Modern Economy <i>Hasse Ekstedt</i>	1
Rethinking Shadow Banking: Friend or Foe? <i>Ali Tarhan</i>	2
Banks' Credit Rating Changes and Their Stock Prices – The Impact of Political Divisions And Economy Development <i>Patrycja Chodnicka-Jaworska</i>	3
The Interaction Between Economic Growth and Financial Liberalization After 1980 in Turkey <i>M. Veysel Kaya, Fatih Demir, Abdulkadir Tigli</i>	4
G7 Stock Markets: Who is the First to Defeat the DCCA Correlation? <i>Paulo Ferreira, Andreia Dionísio</i>	5
In Context of Flexible-Rigid Wages in Comparison Turkey and the USA <i>Ahmet Coban, Abdulkadir Tigli</i>	6
European Central Bank (ECB) and The Federal Reserve System (FED) Policies and Objectives Towards Stabilization <i>Pellegrino Manfra</i>	25
Comparison between Social Network Analysis of 7th Framework Programmes on ICT and Energy Projects <i>Asli Ertan</i>	26
Income Distribution in Turkey during the Global Financial Crisis <i>Sinem Sefil, Ensar Yilmaz</i>	27
Correspondence of Authors	28

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PREFACE

In the globalizing world, the significance of the social sciences have more risen to prominence. Previously, the sub-disciplines of social sciences were being in interaction. But now, the social sciences are controverted with other basic disciplines. So, it has been needed more arguements; like publications, conferences, assemblies, workshops, etc.

As being the conference team of The Review of Socio-Economic Perspectives – abbreviated as the RSEP (ISSN: 2149-9276) – have started out the social scientists, who are specialists in their field and the students to satisfy that need by bringing close together. The preliminary organization was 1st RSEP International Conference on Politics, Economics, Finance and Interdisciplinary Studies on 28-30 April, 2016 in Prague, Czech Republic. Although it was the initial conference, the scientific and multi-chrominant personalities of participants with senior chair team and the students' existences whole have served our lofty aim. Consequently, this first conference has really excited us to organize the next conferences in different European countries.

At first, we must thank to the keynote speaker Hasse Ekstedt, from the University of Gothenburg. Like another weighty participant Ali Tarhan from the Central Bank of Turkey said, Mr. Ekstedt is not only an academician, he is also a philisopher. Then, we should convey our thanks to precious participants and audience for their contribution. Nextly, we thank to Holiday Inn Prague Congress Center managers and officials for their technical supports during the conference.

And so, the RSEP launched forth upon the international conferences with Prague. Anymore, we expect further participants for coming up next conferences.

Conference Team - 2016

Contradictions in Economic Theory and the Economic Modelling of the Modern Economy

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Abstract

In this paper we analyse the problem of projection of the reality into mathematical/logical analysis/modelling. The primary focus is on the neoclassical theory as the most refined economic theory and we scrutinize the axiomatic structure with respect to the underlying conceptualizations. The problem of aggregation in equilibrium and disequilibrium is analysed with particular reference to barter economy, which is underlying the neoclassical approach, and the modern money economy, where money is to be seen as a disequilibrium concept.

As a result of the analysis two Theorems are derived, one for the neoclassical barter approach and one for the money economy, which contradicts each other.

The discussion of money is enlarged to the current institutional changes on the financial markets from a monetarist reign to a Real Bill approach, which is opposite to the movement during the early 19th century which resulted in Ricardo's Ingot Plan and the Bank Charter Act of 1844 when the monetarist approach more or less was institutionalized.

An evident methodological result of our analysis is that the neoclassical thinking cannot be applied to the modern money economy and furthermore that Keynes' analysis (not Keynesian), including his works on probability and philosophy, cannot be moulded into a neoclassical setting, since the two modes of thinking are contradictive in terms.

Keywords: Equilibrium, Disequilibrium, Axiomatic Structures, Money, Finance

JEL-Codes: B12, B13, B41, C62, D50

Rethinking Shadow Banking: Friend or Foe?

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Preliminary Version

Abstract

Shadow banking has been held responsible as the chief culprit of financialization and financial crises after the 2008 financial meltdown. Considering the large scale of financial industry of Western countries, especially the United States of America (US) and the United Kingdom (UK), experiences show that the shadow banking has fed these countries' economies during the stagnation, but has been subjected to massive runs on repos during the slumps. It has also become evident that the income gap caused by deindustrialization in these countries filled by the revenues of financial industries. However, the massive volume of shadow banking not only disguised the basic structural problems in the US and the UK economies, but also created further deindustrialization waves among the peripheral countries. On the other hand, more profoundly regulated continental European countries were not affected so largely by the negative outcomes of income fluctuations created by shadow banking. During and after the financial turmoil of 2008 crisis, the positive contributions of shadow banking have been ignored. One important aspect of shadow banking is its capacity to mobilize idle financial resources. This capacity has far greater importance for emerging economies than the developed ones since it could reduce the financial dependence of these countries on foreign funds. Thus, the purpose of this study is to discuss the positive contributions and feasibility of shadow banking for developing peripheral economies.

Keywords: securization, financialization, shadow banking, periphery

JEL Classification Codes: F36, F65, G1, G2

Banks' Credit Rating Changes and Their Stock Prices – The Impact of Political Divisions and Economy Development

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Abstract

The basic goal of the article is to analyse the impact of credit rating changes on the rates of return of banks' shares taking into account the level of economy development and the political divisions. The following hypothesis is proposed: The banks' share prices have stronger reaction to the credit rating changes in developed economies. The strongest impact of the banks' credit rating changes is observed for a downgrade, both in developed and developing economies. The analysis has been prepared on Thomson Reuters Database. As a dependent variable are taken into consideration daily differences between the logarithmized rates of return of banks' shares. Independent variables are the threat of long term issuer credit rating changes proposed by small and big recognizable credit rating agencies. The analysis has been prepared on data through years 1980 to 2015 for 24 countries by using event study methods.

Keywords: credit rating, rates of return, political divisions, economy development

JEL Classification Codes: G14, G15, G21.

The Interaction Between Economic Growth and Financial Liberalization After 1980 in Turkey

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Extended Abstract

The liberalization behaviour initially started by globalization; later it has seen a mobilization diversity from commodities to financial assets all around the world. At the same time this process had proceeded from trade liberalization towards financial liberty synchronously. Except that, alongside assumptions of financial deregulation kindling the economic growth, should not to rule out its causation of fragility or -more abstractly- crisis environment approaches. The USA originated 1929 Great Depression was the first full-scale global crisis in the economic background of the world. Also the appearance of Keynesian measures started at that guard line. Inasmuch as, the being of uncontrolled financial mobility caused sudden recessions by creating a bubble effect. Just after, global economies -which were trying to relieve after the First World War- have been stayed in crisis environment devoid of manufacturing and capital, by running shocks with the beginning of the Second World War. They have extended towards 1960s and 70s merchandising after arriving recovery and the increasing of financial trenchancies have become a current issue. Trade liberalization have had impact on crisis comparatively with financial liberalization. By reason of that, the crisis impact has been highly while the trade volume spreading and tightening slightly around the manufacturing axial largely; financial autonomy in consequence of mobilizing of capital and nominately hot money flows and maintaining on non-trade assets. And the world economic background frequently had been witnessed regional and global business cycles' revolution to crises lustral or decennial, with the financial liberalization process.

In global markets the financial liberty, which has clarified after 1970 and has expanded to many countries after 1980s, possessed directly or adversely proportional with economic growth or economic growth towards financial liberalization. The differential directed relation between financial liberalization and other macro data is quite common study framework in the literature of international economics. In the literature of economics, however both of two factors usually have an impact on each other directly proportional; there are a considerable amount of detections that not be any relations between them; in fact, there are also the studies, which have claimed adversely proportional impact between them. While it is being observed between the two factors in developed economies are incentive each other, in developing countries, it is wrong to assert a generic estimation. Inasmuch as, the speculative money flows can occasionally induce recessions. Short-run financial mobilities do not pose predictable results. So, the economic growth destination can be accrued by long run liquid treatments and the transferable funds to real investments.

In case the economic revolution process of Turkey; the years 1980, 1989 and 2001 have become one apiece crosspoints. Turkey, as a joining country towards globalization line, with the January 24th of 1980 Judgements; has opened the domestic currency to the international area by 1989 cabinet decision and at the same time the obstacles have removed. Following the November 2000 and February 2001 crises, when the banking and monetary markets -which were having deficits succesively- faced with the liquidity problems; to caused largely and structural alterations "Transition to the Strong Economy Program" has come into play. In particular, the program that strengthening of Central Bank and providing autonomy composes the base of implementing economy policies even today

In the economic history of Turkey, after 1980, it has been observed variable and non-variable directional relationship between financial openness and economic growth or other macro data. Seemingly it has claimed that interaction is from financial liberalization towards economic growth. But, there are also assumptions that claimed from economic growth to financial liberalization. There are some studies alludge that interactions from time to time create a negative impact. Here; in the study, the obtained result is being treated to reveal concretely, by handling both of the interplay of the factors, seperately.

Keywords: Financial liberalization, economic growth, McKinnon-Shaw Hypothosis, causality test, VAR model, unit root test.

JEL Classification Codes: C12, E32, F63, O11.

G7 Stock Markets: Who is the First to Defeat the DCCA Correlation?

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Abstract

The Efficient Market Hypothesis (EMH), one of the most important hypothesis in financial economics, argues that return rates have no memory (correlation) which implies that agents cannot make abnormal profits in financial markets, due to the possibility of arbitrage operations. We analyse G7 stock returns using detrended cross-correlation analysis and its correlation coefficient, a methodology which analyzes long-range behavior between series. Our main results show that the long-range correlation of return rates is significant till (at least) the 140th lag, which corresponds to about seven months. The stock markets that show higher serial dependence, evidence a strong correlation that goes over the 200 consecutive days. Does this result undermine the EMH?

Keywords: Efficient Market Hypothesis; long-range correlation coefficient; lag; detrended cross-correlation analysis.

JEL Classification Codes: G14, G15

In Context of Flexible-Rigid Wages in Comparison Turkey and the USA

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Abstract

The wage perception in the labour markets, had executed a certain number of structural changes with Industrial Revolution. The main reason of wages for the society has been “an economical” or “a social” viewpoint; on this context, liberal approaches and unions have come into prominence reciprocally. These economic and social reasons induced flexible wages in the liberal systems, and also rigid wages in the planned economies. In almost all economies, in specifying the minimum wages, elasticity and rigidity was noted in the execution phase. In the USA, where is validated on market economy, wages to comply with the conditions of the market and becoming elastic. In Turkey, market elements behave not elastic on wages and frequently being adhesive on the minimum wages. On this inference, the implement of the open competition market requirements on the whole markets, contribute to providing the equilibrium on prices (especially on the wages).

Keywords: Labour markets, wage policies, flexible / rigid wages, minimum wages, purchasing power (real income).

JEL Classification: E24, J31, O15.

Introduction

In the process of globalizations spread USA, leader of capitalism beginning from 1970s, and other countries after 1980s, countries' economies created periodical (usually 1 year) databases to run their policies on more reliable data by collecting macro economical indexes developed after The Great Depression, 1929. These data, which is based on developing the factor efficiency policies of countries, are “macro-economic data”. These macro data, which became more important especially after WW-II, give directions to economy policies with helping of statistical records on account of showing the point that national and international markets have come.

As it is known, four fundamental factors of economy science are capital, labour, land and entrepreneur. Creating national and year-based numbers that belong to these factors, and based on these, producing policies for future belong to study area of macro-economic doctrines. And the fact that per factor has its own market and market analysis are also concerned by micro-economy forces us about the borders, in which we can evaluate. To give an example; for evaluations about form and operation of labour markets, micro; and for

evaluations about annual numbers price of labour (nominal wage) and real wage in countrywide, macro doctrines that are very hard to separate from each other should be used.

At the point of employment of all the factors that involves in production, although it is theoretically possible to confront similar mechanisms, forms of these markets are not alike. By similarity, it concretely means homogeneity. So, inhomogenous factor prices varies¹. The real problem is on what criteria this variability based. To put it more clearly, what or who is the subject that changes or evaluates price of labour, in other words “wages”, depending on sectors, geographies, markets, criterias of efficiency, sociality or more factors?

During the theoretical process started with laissez faire laissez aller laissez passer rhetoric, the fact that usage of factor and pricing were left to market conditions, theoretically sounded good but after market conditions were gotten in control of financier, the theory of “natural labour market” that defended by classic opinions broke the power of workers of bargaining and left bargaining part mostly to financiers. Labour suppliers or in other words “workers” who started to lose their social security and other rights started to seek justice by unionization, organization etc. But after these attempts that make things harder for enterprises, political organization in several countries’ economies called government had to interfere for reconciling employer and employee, equating them, and the most important; preventing real production in the country from negative effects. It had to do this by putting some factors like wage, social right, social security.

When it is considered that for labour suppliers, their labour and physical presence can not be separated from each other, it is seen that labour markets should be examined separately from other factor markets. And working especially on price of labour (wage) technically and accurately is an obligation as a result of the fact that qualities “*indivisibility and mobility*” are at the forefront because of the forms of supply function.

When development and policies of wage in the economic operation of World, two bloc systems draws attention: the USA and Eastern Bloc economies. Of course here, no matter how European system is included in Western class, in the terms of wage policies, it is included in Eastern class. It can be said that the reasons for this are long time Soviet effects on the most European economies, unionization, collective bargaining initiatives.

In the US economy, in which is liberal-economic systems works closest to ideal, it is seen that this liberalisation affects wages. In the US economy that has so many lacks of social rights and social security system, this situation can be evaluated as a result of flexibility of wage mechanism. When, in the future, statistical data are examined, it will be seen that no matter how wage levels are trending, this happens mostly with fluctuated indicators.

These wage policies in the USA’s competitive market can be explained with the economic side of wage². Economic way of wage policies may come up as a good thing for

¹ Mobility or stability of production factors are the optimum pattern for this. Unstable factor means that it is in a heterogeneous form.

² The fact that wages are based on economic reasons can be explained with being set depending on fluctuated cyclical; not with labor suppliers’ wage demands or social status.

entrepreneurs. Two connected issues that can not be ignored have to be considered. First; almost all the world economies agree that ideal economic system can be obtained by operation of the whole competitive market. And the second one; the fact that labour suppliers and demanders meet in the same market and establishing competition conditions in labour markets is not contrary to liberal economic thought, but rather; supports the doctrine of market economy.

In Eastern bloc economies, choice of policy is set depending on social status of labour suppliers (worker/employee), not on course of economy. And this makes wages rigid. In this case, history of existence of rigid wage is important in ways of putting the reasons of choice of policy into consideration. It was mentioned before that “the invisible hand” –activated in 18th century in industrialized Western economies- pushed the labour suppliers to make arbitrary savings and how it abused with wage regimes applied under the level of minimum living conditions.

By accepting social life standarts as an “idea” from this situation, it shows that organization of worker class, unionization, becoming commune made wage policies evolved into favor of labour suppliers. Especially in 19th century, Soviet originated wage policies that effected the economies of Germany, Italy, Balkans, Eastern Europe for a long time overshadowed the term “market” in these economies and made it closed by creating non-profit production and employment in the terms of planned economy and planned development by the government and by sending Eastern and far Asia away from international markets.

In the first part, evaluations will be done on operations of markets in a general way. In the second part, in which main theme of this work will be dealt with, the term “wage”, systems of wage, types of wage, theoretical approaches on references of calculation will be presented partly and briefly. In the third part, after statistical data are subjected, opinions, which will offer an insight into a possible wage model put exist in the future, on wage policies in the USA and Turkey, which wage regime is going to followed, optimum average of rigid wage forms, how an optimum wage policy can be created will be expressed.

1. Outlook of Labour Markets

Like the other factors, the “labour factor”(workpower), which is fundamental social origin of economic activities, has its own market prices that are supplied and demanded in a certain market and defined depending on various origins.³ sahiptir. The meeting area of supply and demand of labour factor that has an heterogenous identity changing its efficiency and price depending on forms of markets, numbers of labour suppliers or demanders is called “labour (workpower) market”. But pricing labour markets is harder compared to other market conditions. For instance; Hatiboğlu, who reminds us that labour vanishes if it is not used (1976, p.82), points to fact that pricing labour is a complex problem because of the fact that a good can be used again in the future.

³ In labour markets, price of labour factor differs according to economies. In liberal systems, this price is determined by market while in mixed systems, it is determined by labour demanders or public power.

Although labour markets are primarily in concerns of labour suppliers, in economics doctrines, especially from the points of the ones who takes advantages of labour supplies presented in labour economics, two fundamental factors should be laid stress on. First one is labour demand (entrepreneur), who turns her/his fund into product by putting it into process of production from labour factor. Second one is labour supply (worker/employee), who gains wage enough for living as a result of contribution to production.

In underdeveloped and developing countries' economies that liberal systems is not exactly processed, a third factor can be added; government, which interferes labour markets like it interferes all the markets. In final analysis, it is possible to conclude that labour markets have three factors; labour supply, labour demand and government regulation. But, there are some who include unions into this regulation group by regarding social side of labour factor according to changes of wage systems.

From the general definition about labour markets, it will be good to mention briefly about three fundamental term (population, labour and employment) theoretically.

Firstly, population, in demography science, means number of people who lives in a society or geography according to their qualities and physical conditions. And it points to community consisting of labour suppliers examined in micro economy and evaluated in macro economy. There are many demographic labour calculation formulas from labour economics literature but topics are mentioned as titles, so these formulas will not be mentioned.

Secondly, when the term "**labour**" is looked at from Turkish Statistical Institute; *"it includes the population at working age that request labour for producing economic goods and services in referance period. Labour is described as employed and unemployed in total."*⁴

$$\text{Labour} = \text{Employed people} + \text{Unemployed people}$$

From this, It is possible to formulate the ratio of participation in labour.

$$\text{Participation in labour} = \frac{\text{Labour}}{\text{Active Population}} \times 100$$

Lastly, when the term "**employment**" is analyzed, we get one abstract meaning and one concrete meaning. As an abstract term, employment has the meaning of participation of production factors' in production process. And as concrete, It has the meaning of participation of labour factor in production process as an "input". We can simply formulate ratio of employment as it is done below:

$$\text{Employment ratio} = \frac{\text{Employed}}{\text{Active Population}} \times 100$$

⁴ http://www.tuik.gov.tr/MicroVeri/Hia_2011/turkce/metaveri/tanim/index.html (Access: March 22nd, 2014)

2. Price of Labour: Wage

2.1. Terminologically

There are wide range of meanings of the term “Wage” by many social scientists. Here, where the term “wage” is looked at from is important. Before getting into wide meanings, mentioning these points are important by revealing the meanings of wage on perception and being basic of distinction between flexible and rigid wages that are going to be clarified.

As a common and wide meaning, wage is price of labour factor. The ones who supply labour demand wage as a result of this labour. And from a different point, entrepreneurs who demand labour supply wage for labour they use. In labour economics, two secondary definition can be used for both labour suppliers and demanders. While wage is a return of labour for suppliers, it is a cost of production for demanders.

As the issue stood on above shows, if wage has an economic and social side, it means that this assumption is clearly determined by the perception that is produced by labour suppliers and demanders. If wage’s being a cost of production and a cost of labour is put in the same equation to differentiate and explained with wages’ economic and social side, wage rises to prominence with its;

- Economicality side for being cost for labour demanding entrepreneurs,
- Sociality side for labour suppliers by being cost of working

According to evaluations made inside market economy, wage is price that is paid in a period (hour, day or month) (Ehrenberg and Smith, 2012, p. 34). And according to definitions by labour economics, in economic systems led by planned economies, when wage is described as the cost that should be enough for living of the worker and honorable life (Zaim, 1977, p.164), it can be seen which side flexible and rigid wages makes more important (economic or social).

As a result, economic and social perspectives in wage regimes is the reason of a basic distinction that is encountered in all the titles that is going to be dealt with like calculating wages, accrual process, raise policies, wage systems.

2.2.Purpose and Importance of Wage

Production is needed for enterprises to exist; labour employment is needed for production. Although we usually confront labour as physical work supply; activities like idea, brainstorm, invention, modelling are included in labour factor class because of their employment.

Wage, first addressed for productivity and efficiency for enterprises, is the most important tool that make labour suppliers go with their enterprises and controls labour morale and motivation. (Ergül, 2006, p.94)

2.3. Wage, Income and Wage Rate

Wage rates are usually the calculations of wage calculations that made per unit of time. Wage that mostly calculated per hour can be calculated per week or month depending on homogeneity of place, sector, working conditions.

Wage income is nominal income that worker gains as a result of working for a certain period of time. Multiplying wage income by total working time gives us simplest expression of the income of the worker in a certain period of time.⁵

2.4. Nominal Wage-Real Wage

Nominal wage is financial/cash wage that is paid to worker. Worker saves or spends the remaining wage after some cuts are done on before-tax wage that is calculated with some certain ways and systems. Real wage is the value of wage that workers get when it is compared to market prices that is consumed.⁶

Here, we confront the term “purchasing power” as being frequently used. If it is going to be dealt with in a macro level, with Yeldan (2011, p.7)’s definition; purchasing power can be determined from calculated price index (Purchasing Power Parity) of standart good and service.⁷

Krugman and Wells (2011, p.510) who want to prevent errors on exchange rates mentioned that nominal exchange rate is always different from purchasing power parities. And Skousen

⁵ **Example:**

Wage per hour	: 12,00_	}	Daily Wage Income = 12,00 × 8 = 96,00_ unit price
Working Period per Day	: 8 Hours		

⁶ Let’s say; net wage for previous year (monthly) is 750,00 TL and one bread’s price for previous year is 0,75 TL. Based on bread, real wage is $750/0,75 = 1000$ bread. And let’s say; current prices’ net wage (monthly) is raised to 850,00 TL. And one bread is 1,00 TL in current price. This time; real wage, based on bread, is $850/1 = 850$ bread. In a year, worker’s nominal wage raised from 750,00 TL to 850,00 TL. But price of bread, vital source for living, is raised from 0,75 TL to 1,00 TL and purchasing power has been decreased, so the worker can buy 850 breads in current price, but in previous year, the worker could buy 1000 bread with the wage earned. In the other words, real wage is decreased.

⁷ Turkish Statistical Institute’s example can clarify Purchasing Power Parity (PPP):

PPP is most concretely calculated as the ratio of a good that has the same definition in two different countries. For example; if the price of 1 kg meat is 20,00 TL in Turkey and 25,00 \$ in USA, purchasing power of 1 USA Dollar for meat is:

$$PPP (\text{Turkey} / \text{USA}) = \frac{20,00 \text{ TL}}{25,00 \$} = 0,80 \text{ TL} / \$$$

[www.tuik.gov.tr/IcerikGetir.do?istab_id=143 (Access: March 26th, 2014)]

(2010, p.121) who explains that purchasing power may not always be a real criteria with an interesting Mexico example. In 2004, Mexico's GDP numbers reached 1 Trillion USD, in the same year, USA's GDP was 12 Trillion USD and prices in Mexico was higher than normal. But purchasing power increased %4 for people who had been expected to be %10 richer. And Skousen connects this event to high level of inflation rate.

Still, there are some econometric analysis showing that wage regimes affect country's financial policies. (Christoffel and Linzert, 2005, p.p. 27-28). And this is directly related to purchasing power that regulates the wages.

According to some empirical studies by labour economics; there are classifications like kinds of wages, attributes of wage, policies of wage and here there are only unit wage, wage rates and definitions of nominal and real wages for a study to be done in terms of labour economics.

3. USA and Turkey in the Terms of Flexible-Rigid Wage

Wage flexibility is freedom of revising wage forms of production units according to changing market economy conditions. Economic system's liberality shapes flexibility of wages. In other words, if labour suppliers and labour demanders who meet in labour market shape wage according to market conditions, production input and costs, and the most importantly freedom of competition, it can be said that wages in that economy are flexible. Important issue in here is that a regime changing according to the workers' minimum living conditions, social needs and some social securities is not mentioned. Furthermore, these social factors make wages rigid and send them away from competitive market conditions. In planned development economies and especially in Turkey, wage can not be related to efficiency as a result of this (Işığık, 2011b; p. 224).

Turkish Economist Akat, who refers to labour-value mentality as a different view point to social side (2009, p.p.134-135), points to obligation of accepting all the theories that equal labour suppliers and their equality of contribution to public production. And he points out that he does not find polarized wage policies as normative. Wages are paid in different amounts because workers do not show similar qualities and workers' mobility is at a low level (Lordoğlu and Özkaplan, 2007, p. 266).

While rigid wage policies, in other words, indexed earnings⁸ forces production units to pay stable wage, it actually causes to a flexibility in enterprises' cost-profit margin. And this is contrary to planned economy⁹ policies. In other words, how profit and cost accounting that is always fluctuated under wage rate tangent will affect growing rate is a debated issue.

⁸ Here the term "indexed earnings" mentions about wages that are stabled according to minimum living conditions or purchasing power data (like minimum wage application), not about wage increase that are indexed into signs gathered as absolute wage policy (for example; GDP).

⁹ Planned economies aspire to development along with growing. So, if planned economies were defined as "development economies", it would not be wrong.

3.1. In the Context of Average Wage

When wages' tendencies in years are examined, changing wages in the USA economy that presents not speculative but regular raises on average wages according to sectors, years, even months, states and cities show that a flexible wage regime rules the market that tries to fulfill the conditions of competition.¹⁰

In the graphic below (**Figure 1**), fluctuated wage rates draw attention immediately. As the biggest example to cyclical changes; wage rates kept up with market conditions in the periods of depression in 2008 and 2009. But the fact that even during these depression and recession transitions that happened massively in 2008 average wages did not get below the minimum wage level determined depending on federal level and state level should not be ignored.

Fructual way of wage rates in competitive markets was defended as a way to prevent unemployment in theory. But in 2008 depression, which is similar to 1929 Great Depression, wage rates that flexed to minimum wage level could not drop unemployment level. For this situation to be revealed, Prof. Esen¹¹, who expresses the critics of Paul Krugman on blaming US government for following indirect policies on unemployment, emphasises that direct policies¹² are needed in short term. And Keynes, in *General Theory* (2007: 225), represents “*a decrease in financial wage is not tended to increase employment for a long time*”.



Figure 1: Changing wage rates in the USA¹³

¹⁰ For example; in the last bulletin of U.S. Bureau of Economic Analysis (BEA), the fact that wages and salaries of the workers who works in private sector raised 17,4 billion \$ and reached 42,3 billion \$ even while going from February to March is very important in the term of that although seasonal effects are considered, a monthly change makes difference in incomes of nominal wage.

[<http://www.bea.gov/newsreleases/national/pi/pinewsrelease.htm> (Access: May 2nd, 2014)]

¹¹ Professor Oğuz Esen, “Is Kurzarbeit a German miracle?” titled corner post. http://www.birgunabone.net/writer_index.php?category_code=1187090530&news_code=1259149723&year=2009&month=11&day=25#.U2kSEP6KDcc (Access: April 22nd, 2014)

¹² What direct policies mean usually is economic vitalization packages.

¹³ <http://tradingeconomics.com>. This website compiles more than 300.000 data related to economic index and provides data about 196 countries' index including stock index, exchange rates, bond yields, commodity prices.

It is observed that wage changes in the USA, for example; the period when crisis started is based on, are almost the same as graphic about long term equilibrium wage (Biçerli, 2013, p. 239).

Table 1: Nominal wage changes in the USA (differences)

Years	January	February	March	April	May	June	July	August	September	October	November	December
2006				0,00	0,04	0,02	-0,02	-0,03	0,09	0,06	0,02	-0,01
2007	0,00	0,00	-0,01	0,00	0,02	0,03	-0,01	0,01	-0,03	-0,01	-0,05	-0,01
2008	-0,02	0,01	0,01	-0,02	0,02	-0,08	-0,03	0,06	0,00	0,11	0,23	0,12
2009	-0,02	-0,01	0,02	0,00	0,01	-0,07	0,02	0,00	-0,02	0,00	-0,01	0,00
2010	0,01	0,02	0,01	0,01	0,02	0,00	0,01	0,00	0,01	-0,01	-0,02	-0,03
2011	0,01	-0,03	-0,05	-0,03	0,00	0,00	0,02	-0,04	-0,01	0,04	-0,03	0,01
2012	-0,01	0,00	0,01	-0,01	0,02	0,03	0,02	-0,06	-0,02	-0,03	0,06	0,03
2013	0,01	-0,04	0,03	0,04	0,01	0,01	-0,02	0,01	0,00	0,01	0,02	-0,02
2014	0,01	0,02	-0,01									

Source: Bureau of Labor Statistics, <http://www.bls.gov/ncs/ect/> (Access: April 4th, 2014)

When change rates of nominal wages in the USA is examined [shown below (Table 2)], bottom and top movements in 2008 seen as -0,08 and +0,23 draws the attention. This movement partly happened again in June of 2009.

In empirical analysis of Dr. McLaughlin (1992, p.28) from Chicago University, it is introduced that these fluctuated increases tended to usually decrease in the years between 1980 and 1990. Dr. McLaughlin, who came across wage cuts, expresses that wages of unionized workers had compromising raises in that period (1992, p.27).

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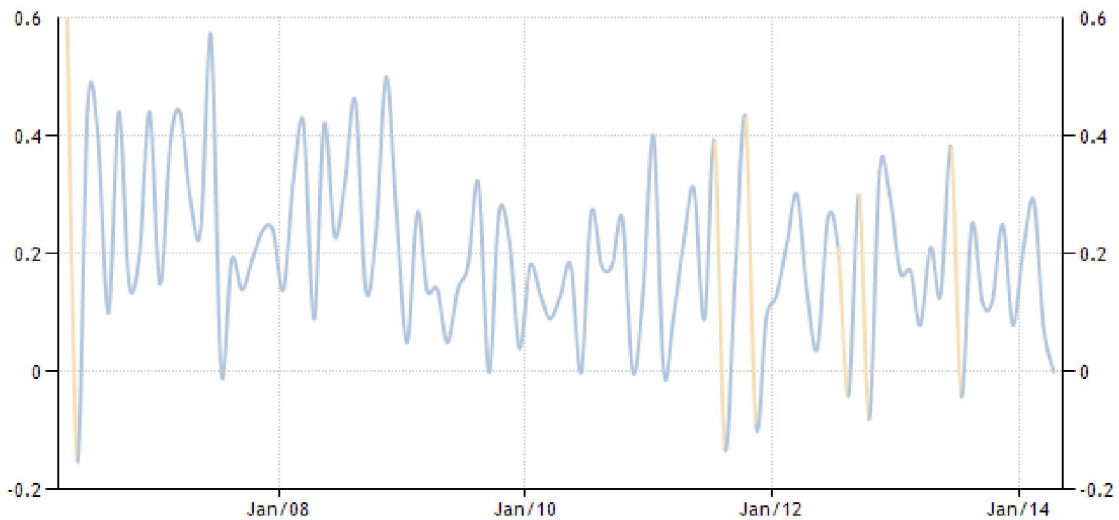


Figure 2: Change rates happening in average wage per hour in the USA.

Source: <http://tr.tradingeconomics.com/united-states/average-hourly-earnings>
(Access: May 2nd, 2014)

When the other graphic (Graphic 3) that has the comparing the USA's fluctuated wage rates and wage rates in Turkey's competitive market is examined, it can be clearly seen that except for a little decrease in 2009, a consistent wage regime is seemed to rule. It can be discussed that there was a decrease in the rate of unemployment in Turkey as a result of a policy followed like caused regular raising. But other active development policies overshadowed contribution of a consistent rigid wage regime to employment rate.



Figure 3: Comparing wage regimes between the USA and Turkey.

Source: <http://www.tradingeconomics.com/united-states/wages> (Access: May 2nd, 2014)

3.2. In the Context of Minimum Wage Levels

Minimum wages are wage rates that are determined regarding of social side of wages in economies by government representatives, worker representatives (worker unions), employer representatives (employer unions), legal person representatives as an arbiter according to minimum living standards. Adam Smith, who is thought to be pragmatic founder of economics science, expresses these statements that became base for minimum wages in his work "The Wealth of Nations" (2006, p. 64): "*No matter how superior is a boss to his/her workers, even the wages of lowest labour class can not be dropped down after a considerable time.*"

The difference between minimum wage rates and average wage rates is quite low in Turkey's economy, but it is usually higher than these rates. This difference, which is exactly related to wage systems, is an other sign of the fact that wage applications are flexible in the USA economy, in which production and labour costs along with social rights are regarded and run with all the instruments of competitive market economy.

Wage systems in a country can change between regions, sectors and even enterprises. Contracts that is made between labour suppliers and labour demanders cause wages to be rigid for a long time (Parasız and Erken, 2014, p. 182) and when basic application stage is examined, in the labour priced based on *wage body + bonus*, it is showed by Tarhan and Kaya (2011, p. 229) that long term work contracts do not cause wages to be rigid. Until the recent times in Turkey, extra wages were tended to be paid same. And this is a sign of the fact that wages dropped down as real. While in scientific classification about extra wages, a lot of items can be counted, 9th Court of Cassation counted all these items in its one decree and evaluated same payment fact as definition of wage along with cash payments.¹⁴ Economic index that cause wages to raise changes wage's body and even if recompenses of extra working or extra wages are stable, wage rates do not remain rigid and gross wages flex.

In Turkey, where the rigid wage systems are often, determined minimum wages are frequently accepted and used by entrepreneur. Investment groups that affects the decisions made in minimum wage determination commissions prevents wage rates from serious increases by using their trump, which is the fact that increasing production cost and as a result of this, decreasing production and employment will cause government to lose some of its tax income. So, routinized price policy rules the market. There is no doubt that this reflex of enterprises applied as a precaution for unionized movements and for them, rigid wage policies works as a assurance in economy.

¹⁴ 9th Court of Cassation 12.05.2011, E.13882, K.14451: Journal of Working and Society, 2012/1, p.32, 375-376 [Reporter: (Taşkent, 2014, p.292)

Table 2: Changing of minimum wage rates in Turkey and the USA between the years 2000 and 2014.

Countries / Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Turkey ¹⁵ (\$)	1,06 ¹⁶	1,01	0,74	0,89	1,46	1,76	1,90	1,92	2,52	2,09	2,37	2,47	2,27	2,78	2,37 ¹⁷
USA ¹⁸ (\$)	5.15	5.15	5.15	5.15	5.15	5.15	5.15	5.15	5.85	6.55	7.25	7.25	7.25	7.25	7,25

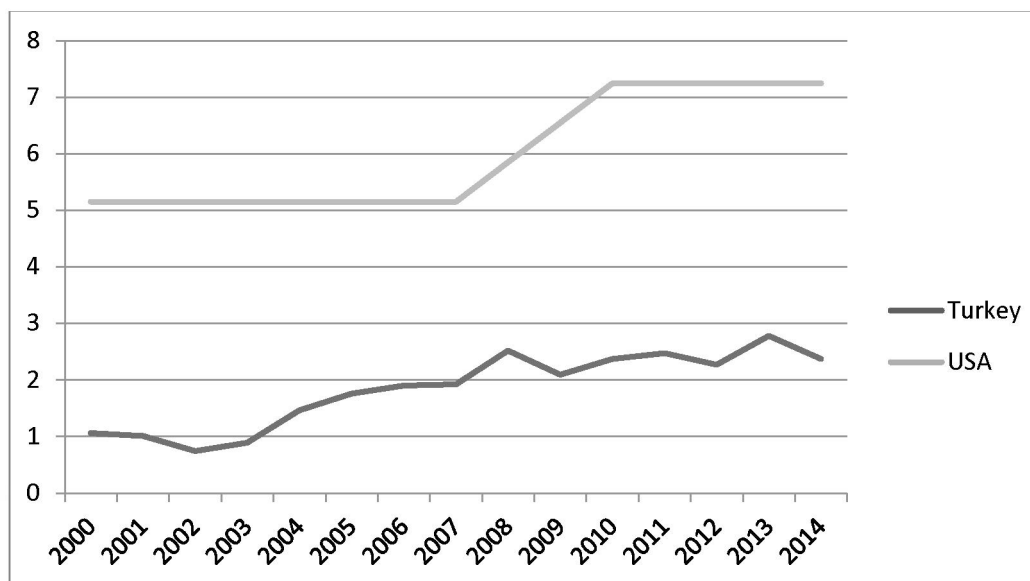


Figure 4: The graphic that is created by using the data in **Table 2** shows changing minimum wage rate in Turkey and the USA between the years of 2000-2014. (\$/wage per hour)

When **table 2** and **figure 4**, which is created with the help of **table 2**, are examined, wage rates throughout the years from 2000 to 2002 can be roughly interpreted, as it is said before, as Purchasing Power Parity because of the fact that while minimum wage rates that increased in Turkey based on Turkish Lira is being placed into the table, that was exchanged into US. Real wage rates that decreased for 3 years contrary to US Dollars made a shrinkage to product basket of labour suppliers. There was a decrease on purchasing power as a result of decrease in real wages and labour rigidity policies in the depression of 2008-2009 (Independent Social Scientists, 2011, p. 78). And in following years, wage trend always increased as a result of

¹⁵ **Statistical Recordings of Ministry of Labour and Social Security**

http://www.csgb.gov.tr/csgbPortal/ShowProperty/WLP%20Repository/csgb/dosyalar/istatistikler/net_brut_asgari_uc (Access: April 2nd, 2014)

¹⁶ These wage numbers are calculated for a hour period because in Turkey, determined minimum gross wages are fixed for a month period. (With an assumption of 26 workdays and 8 hours of work daily)

¹⁷ Comparison in this table was made between Turkey and the USA. And the wages that are determined as Turkish Lira exchanged into US Dollar regarding that exchange rates of first work day of Central Bank of the Republic of Turkey for every year.

¹⁸ **United States Department of Labor**

<http://www.dol.gov/whd/state/stateMinWageHis.htm> (Access: April 22nd, 2014)

compromise between precautions that are taken in the terms of Transition to Powerful Economy program, agreed in 2001, and consistent government policies after 2002.

Here, there are two periods that draw attention. Firstly during transition from 2008 to 2009, decrease in wage rates draws attention. Going down from 2,52 \$ to 2,09 \$, it is observed that employment rate decreased as a result of shrinkage of global depression in 2008 and decreasing with the effects of Dollar/TL parity. Secondly, during transition from 2011 to 2012, the reason for decrease from 2,47 \$ to 2,27 \$ can be evaluated as a result of the fact that Dollar/TL parity increased from 1,5476 to 1,8768 and real wage rate decreased. In the point of transition from 2013 to 2014, decreasing unemployment rate in the USA and in parallel, FRS's monetary tightening caused real wage rates to decrease by closing the rate of Dollar/TL in a speculative level of 2,1718.

When the USA economy is examined for the same period, long term stable policies that are far from market economy's conditions' minimum wage determinations and regard purchasing power ability draw attention immediately. Minimum wage rates were hold at the level of 5,15 \$ throughout the years from 2000 to 2007. This stable condition was abandoned in economy that is the center of global crisis. But in 2010, it was stabled again at 7,25 \$. Of course, these numbers are mostly social sided and regard minimum living conditions based on purchasing power. As seen in previous title, average wage rates that are actually applied in the USA's real sector market have never dropped down under 10 \$.¹⁹

When the table that supports this claim is examined, it is seen that sector workers never works on minimum wage rates with flexible pricing policies in competitive market conditions. And the most important factors while this table is created are:

- Applying active labour market²⁰ (Professional adequacy trainings and life-long employment regime)²¹
- Actors do not know their roles in competitive market conditions
- Getting optimum purchasing power parity by controlly managing Consumer Price Index (CPI) with monetary and financial policies

¹⁹ Except for the crisis period in 2008

²⁰ In Keynesyen's consumption theory, from the hyphothesis of "life-long income", the fact that employment lasts forever can be defined as life-long employment.

²¹ It can not be claimed that passive labour market policies have positive effects on employment rate and efficiency (Mahiroğulları ve Korkmaz, 2013: p.98).

Table 3: Wage rates in private sector (manufacturing industry) between the years of 1999 and 2008

According to total employment	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Average of Special Sector	13,49	14,02	14,54	14,97	15,37	15,69	16,13	16,76	17,43	18,08
Mining and Quarry	16,76	16,94	17,00	17,19	17,56	18,07	18,72	19,90	20,97	22,50
Production			14,76	15,29	15,74	16,14	16,56	16,81	17,26	17,75
Demand for Electricity, Gas and Water	22,03	22,75	23,58	23,96	24,77	25,61	26,68	27,40	27,88	28,83
Construction	16,80	17,48	18,00	18,52	18,95	19,23	19,46	20,02	20,95	21,87
Wholesale Trade (except for motor vehicles and motorcycle trade)	7,56	7,92	16,77	16,98	17,36	17,65	18,16	18,91	19,59	20,13
Retail Trade (except for motor vehicles and motorcycle trade)			11,29	11,67	11,90	12,08	12,36	12,57	12,75	12,87
Transportation, storage and communication			15,33	15,76	16,25	16,52	16,70	17,28	17,72	18,41
Financial Intermediation			19,80	20,20	21,01	21,40	22,06	23,23	23,96	24,78

Source: <http://laborsta.ilo.org/STP/guest> (Access: March 3rd, 2014)

In this table (**Table 3**), if an index list that can be created from the informations in **table 2** in the same years by comparing minimum wage rates is to be plotted;

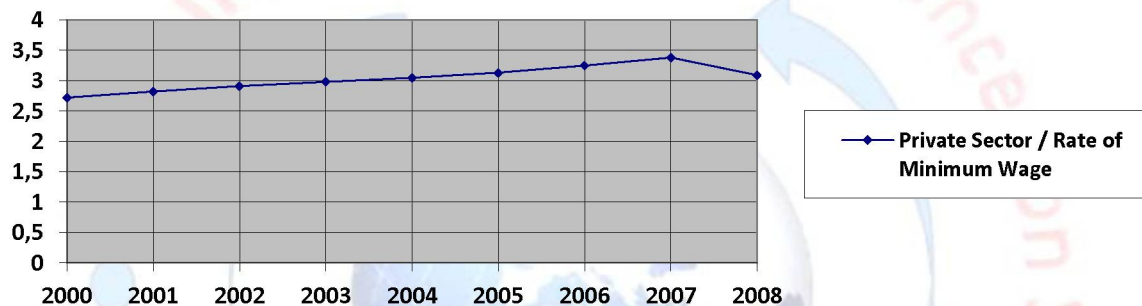


Figure 5: Comparing average wage of private sector and minimum wage rates that were actually applied in the USA economy between the years of 2000 and 2008.

It is clear from the graphic that when wage rates -that are determined as a government policy- are compared to nominal wages that are applied in private real sector employment, there is a consistent increase on wage proportions comparing to stable minimum wage rates but this increase never triggers inflation. When minimum wage rate was determined as 5,85 \$ in 2008, the proportion immediately dropped down and this situation means that a shrinkage in purchasing power (real wages) even it is just a pinch. But a consistent increase that does not trigger inflation pulls itself together in a short term against minimum wages. As a conclusion from here, labour market wages balance themselves against minimum wages because of the fact that whole competitive market is exactly processed close to theoretical reality. As an exception, an empirical study by Wessels in 2004 shows that wage rates tend to drop down below minimum wage rate in a demand for implicit labour for adults (Wessels, 2004, p. 4).

Parasız (1994, p.148) mentioned that an increase on average nominal wage can drop down the efficiency of labour in developed economies²² and this worry of him does not affirm the wages that raised some from minimum wage level but balanced in its natural course when the progress -mentioned above- in the USA's labour market is compared to inflation data for the same years.

²² Philips Curve (inverse ratio between $\Delta w/w$ and unemployment(u))

And according to an optimistic statement about efficiency of labour in the terms of wage policies, it is mentioned that wages in the USA was three times higher than Western Europe's rates at the end of 1990s (Tuna and Yalçıntaş, 1999, p.95).

It is possible to support market economy sided policies that are over the level of minimum wage rates in the USA with David Ricardo (2007, p. 87)'s words: "*Wages tend to fit their normal level. But in a developed society, wage level in market can stay above the level of natural wage level for a long time. If increase on capital creates an urge that makes demand for labour to raise and if this is gradual and consistent, demand for labour can create an urge for people to reproduce consistently.*"

Here, what Işığışok (2011a, p.p.64-65) is trying to explain is that in the terms of Active Wage Policy by the opinion of New Keynesyen, higher wage than minimum wage rate that are paid to employee by employer provides profit maximization for employers.

But it is a social reality from the analysis that when minimum wage rates are determined low, employers deploy employees to the positions that requires lower wage (Denziger, 2007, p.15). It is an active and important issue that if there is a connection between minimum wage and employment rate or not. Empirical findings from 1970s and 1980s claimed that there was an uncertainty as a result of the connection (Eyraud and Saget, 2011, p.95). But Üçışık (2013, p.p. 69-70-71), who wants to deal with the situation in a more social way, claims that with the definition "wages and salaries that increase unemployment", minimum wage rates, which are determined actually below market prices and especially index of minimum living conditions and purchasing power, cause householder and other family members to look for jobs and decrease employment rate. In other words, new members join to unemployment army and they make unemployment rate increased.

Discussions, Conclusion and Evaluation

It is obvious that determining wage that is the price of labour is very problematic analysis as a result of evaluations until this part. The most important factor for this is that labour markets are different from markets, in which other production factors are supplied and demanded. Labour market's qualities of heterogeneous and mobility have become a complex factor as results of the facts that labour suppliers and supplied labour are inseperable and they are priced by employers.

Answers of "which criteria is going to be used to evaluate price of labour", "which wage system is going to be used", "what kind of wage regimes is going to be followed to increase product efficiency" are shaped by perception of formation of labour price. The application that is created by determining wage rates as a result of confrontation of labour suppliers and demanders in a market (labour market) is important in the way that it shows how wage rates are shaped according to competitive market conditions.

On the other hand, in Turkey's and Europe's economies, where rigid wage policies are applied, the payming models, in which wage rates are determined according to labour suppliers' minimum living conditions, social and cultural rights and efficiency of production units is of secondary importance, is faced. Actually at the first look, in this situation that

everything seems bad for manufacturer (financier/employer), employers' minimum wage rates that are determined by government's political and negative pressures on wage policies and announced with populist discourses to public by government are at lower level than the wage rates in flexible economies.

Another important data while determining wage rates is purchasing power parity. Purchasing power parity, which is an important index that is predicted to be given point to in a possible future optimum wage model study, is possibly defined as a goal of workers that is a reference to data of "Human Development Index" –it is prepared every year by United Nations Development Programme- but has not been worked well in practically.

The real problem that is perceived in this process is that if wages are going to be determined according to competitive market economy's conditions or to living conditions at minimum level. There is no doubt that both methods use the same criteria of each other. In other words, it can not be thought that an employer, who pays wage to his/her employees, eliminates the worker's minimum living and social life standards while determining wage rates according to competitive market conditions and cyclical economical progress. As the same, it can be said that in rigid wage policies, this sensitivity is protected even if it is limited in the terms of liberal conditions.

From the point of both employer and employee in labour markets, it is seen that social scientists, who develops theories and formulas on labour economy to solve this misperception, create models that are very similar to each other in the terms of their content, but they do not create satisfying models to provide wage meetings or even if some models are created, they are not adopted enough by production unit actors. Suggested wage systems in historical process²³ creates that producing a consistent and stable wage model by regarding two main factor of wage –economicality and sociality- and purchasing power index and mixing them at an optimal level.

Development and change of wages can not be thought separate from other input/output and production factors. Value of labour is directly related to fund saving and management. And macro economical index can not be ignored while determining wages. Entrepreneurship factor is important while choosing wage policies to follow. Also, active and nominal attempts like bargaining power, syndicate activities, jurat assurances are important factors while to be determined wage rates.

A wage model that can be determined by regarding scientific obligations of all these mentioned factors can be at a satisfying level for both employers and employee in the terms of including all the references as its content even if it would be an example for a rigid policy. Moreover, if this kind of pricing model were created, wage rates that would be balanced in liberal competitive markets would not be different from a wage limit that would be created in the terms of –mentioned- social and scientific realities. So, units of labour supply and demand would contribute to economy more actively and efficiently.

²³ If all the systems that have been presented until today were to categorized by main titles, they would be; "quantity and time based systems", "performance based systems", "systems based on qualities of person", "systems based on qualities of work" and "sliding scale systems" (Topalhan, 2010, p. 79).

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European Central Bank (ECB) and The Federal Reserve System (FED) Policies and Objectives Towards Stabilization

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Abstract

This article examines the world's two most prominent central banks— European Central Bank (ECB) and the Federal Reserve System (FED) and their recent expansionary monetary policy to solve the high unemployment rate in the European Monetary Union and the US.

The policies of the FED have been successful. Unemployment in the US has declined from 10.7% in 2008 to about 5% in December 2015 where more than 4 million jobs have been created. On the other hand the ECB has no mandate to solve unemployment. The average unemployment rate in the European Monetary Union at the height of the crisis was lower than the US but by 2013 – reached record high- to 11.8%. with no end in sight.

The primary goal of the ECB as set forth by the Maastricht Treaty is to “maintain price stability”(Article 105.1). The treaty further instructs the Eurosystem to “support the general economic policies” (Article 105.1) in the euro area without prejudice to the goal of price stability. Thus, the treaty makes it clear that any other objectives are secondary to that of price stability.

The FED on the other hand has three policy goals: “maximum employment, stable prices and moderate long-term interest rates” Unlike the Eurosystem's mandate, price stability is not given a higher priority than the other goals. Clearly, the policymakers of the FED must assign at least an implicit ranking to these goals; in the long-run all three goals are compatible.

Mario Draghi, President of the ECB, pledged “The ECB is ready to do whatever it takes to preserve the euro,” The ECB will purchase short-term Italian, Spanish and other countries bonds without any limit. Thus the ECB can substantially reduce the interest rate on the sovereign debt of those countries, helping them to grow but remove the discipline that the bond market has had on their fiscal actions. But unemployment in these two countries has remained high. Spain has reached more than 25% and Italy in particularly has increased their unemployment from about 8% to about 10.8 %.

In the paper, I will argue that both central banks have embarked on a strategy unprecedented in history with some risks. The policies of the FED have been somewhat successful. Unemployment in the US has declined On the other hand the ECB has no mandate to solve unemployment. With the average unemployment rate in the EMU reached a record high with 11.8%. ECB should consider a policy for unemployment.

Comparison between Social Network Analysis of 7th Framework Programmes on ICT and Energy Projects

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Abstract

Science, technology and innovation networks gain momentum in the policy agenda of the member states of the European Union. Policies to strengthen research, innovation, and deployment activities mainly based on public funding. Besides public funding, suggesting strategic policies are important to strength joint project networks in order to create competitive power. This study aims to conduct social network analysis for 7th framework programmes to investigate network performance of countries among energy and ICT projects and to analyze key actors in terms of organization type, contractor type, country and funding of projects. Recent studies conducted to investigate whether project size and network position is related with network performance. However, none of which considers the time span of progress also, they are conducted in project level. This study will fill the gap the evolution of network performance in different framework projects, additionally provides research in both country, organizational type, contractor type level by exploring the ties between participants in depth analysis technique. Using a large number of data provided form CORDIS database publicly²⁴, social network analysis methodology will be conducted by using Pajek to examine the network structure and performance 7th framework programmes based on ICT and energy projects and explore the relations between participants in the network. After the analysis, the study will be novel in terms of suggesting strategic network policy to enhance the network performance of countries and organization types in order to strength the competitive power of projects in European Commission.

Keywords: social network analysis, framework programmes, strategic policy, network structure, network performance, ICT, energy

²⁴ http://cordis.europa.eu/projects/home_en.html

Income Distribution in Turkey during the Global Financial Crisis

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Abstract

The aim of this study is to examine mechanism responsible for the behavior of the income and earning inequality in Turkey based on data from the 2006 to 2011 Income and Living Conditions Survey. Gini decomposition by income source is employed in order to provide an analysis of the contribution of the various income sources to the evolution of income inequality and to assess the impact of a marginal percentage change in the income from a particular source on income inequality. For examining the contributions of specific variables (education, position in occupation, economic sector) to the interpretation of labor earnings inequality in terms of their gross and marginal contribution, we use static decomposition of Theil T index.

Keywords: Income Inequality, Decomposition, Gini Coefficient, Theil-T Index

JEL Classification Codes: D31, D63, D30.

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