Chapter 19

History of Turkey’s Economic Crises: The Evolution of the Economic

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ABSTRACT

Examine the history of Turkey’s economic crisis based economy will give clues for a much better economy. For 92 years, history of Turkey Republic has experienced the development stages of democracy and economy. Turkey has completed the journey of economic development as the most advanced economy in the world, although began as an undeveloped country. Turkey has been affected from the global and regional crises and overcame the nine economic crises. The implemented economic crisis policies showed parallelism with the trend of the world economic thoughts and has been shaped around Keynes and Friedman applications. All these details have been described in our study chronologically. With our study, we were trying to portray the Turkish economy’s yesterday and today. Thus, we believe that our study will create data for predicting the future of the Turkish economy and the future of the world of economy.

INTRODUCTION

Turkey has been shocked deeply by the eight economic crisis that five major (1929-32, 1958-61, 1978-83, 1998-2001,2008) and four minor and less effective (1969-1970, 1988-1989, 1991, 1994) since last 92 years in established republic. (Kazgan,2008) In our study, These crisis have been analyzed in reason, effect and anti-cyclical policies. We made use of scientific research, reports of the public enterprise and data of international organizations. By our study that have been analyzed on Turkey’s economic evolution and crisis chronology. We aim to reveal economic potential and fragile of Turkey.

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BACKGROUND

Knowledge is cumulative. Our article is the work of cumulative knowledge. We thank thinking people who made important contributions with their knowledge and ideas.

THE ROOTS: 1875

The roots of the Republic of Turkey stem from the Ottoman state and thus Ottoman Porte. Due to the existence of this heritage, one of the reasons for the first economic crisis of the Republic of Turkey can be attributed to the fact that the public debt of the Ottoman state was honored by the new republic as requested by the Great Powers. In 1875, the Ottoman Government declared the reduction of payments of interest on the foreign debt of the Empire by half and the Ottoman state began to default on its debt which was the equivalent to two thirds of its budget. Despite the reduction in the interest on the public debt the Ottomans were unable to meet payments. The bond price fell and the value of gold increased four fold thus triggering the banking crisis. (Şeker, 2007) During the same period the Ottomans had been defeated in the Russian war and had to pay war reparations. The Ottomans proclaimed the Decree of Mouharrem in 1881 which resulted in the creation of the Ottoman Public Debt Administration (OPDA). (Ay, 1991) The process of external debt has a important and special place in the Decree of Mouharrem. Revenue from various sources including from products such as salt, silk, tobacco, fish and alcohol was entrusted to the Ottoman Public Debt Administration. The Administration had the right to determine the procedure for tax collection, customs applications for increase tax revenue, criminal procedure for the smuggling and printing of counterfeit money that would in effect result in the reduction of tax revenue. Employees of the administration were able to receive their salaries because they performed the function of collecting tax revenues. (Ay, 2015) Despite the generation of high revenues, the Ottoman external debt was not cleared until 1954. Following World War I, the Ottoman government collapsed and the Republic of Turkey was established. The Lausanne Peace Treaty was created and the Ottoman debt was subsequently divided amongst successor states. The Republic of Turkey was allocated the largest proportion of the debt it was divided into instalments. The total debt was 107,830,608 TL repayment was envisaged to last twenty-five years on the basis of annual payments (Kazgan, 2008).

NEW ERA: 1929-1945

The Republic of Turkey was established in 1923 following the Turkish War of Independence. However, the young republic was not only born out of a gruelling war but had inherited the debt from its Ottoman predecessor state. The newly established republic did not possess a state central bank and wasn’t considered to be lucrative in terms of attracting foreign trade. In addition to this, Turkey was predominantly an agrarian country and had been adversely affected from global fluctuations in agricultural prices and adverse weather conditions in 1925. State revenues decreased as a direct result of these factors at a time when the newly founded state was grappling with the Ottoman debt it had inherited and nationalisation. These adverse factors continued until the Great Depression. The decrease in the consumption index was also a reality during the above period. The government raised new taxes and subsequently increased the
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