

Chapter 78

Major Macroeconomic Dynamics for Labor Market in Turkey: A Causality Analysis

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ABSTRACT

The relationship among inflation, unemployment, and economic growth can be treated as a trade-off in general. When the economy is in recession, inflationary pressures are expected to decrease while unemployment is increasing. On the contrary, a decrease is expected while inflationary pressures are rising. Thus the relation between these twin macroeconomic variables and their relation to economic growth are a focal point for developing countries. The aim of this study is analyzing the relationship among unemployment, inflation, and economic growth in Turkey by alternative methods. Thus the causality among these variables is tested with modified Wald statistic developed by Toda-Yamamoto. Findings obtained from causality test will provide policy recommendations for Turkish economy on a macroeconomic level.

INTRODUCTION

As the basic economic indicators of modern economic conditions, the concepts of unemployment, inflation, and economic growth are macroeconomic variables which are often analyzed and of which relations among themselves are studied in detail in the context of interaction. Whereas an economic growth could occur as a result of financial activity level in an economy, an inflationary setting and/or high unemployment rates could also be observed.

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To the extent that the mutual trade-off among those principal macroeconomic variables has generally been accepted, the likelihood of being subject to the different type of interaction in the whole country or different time period is stronger. Hence, it is needed to analyze the relationship among mentioned variables by focusing on especially the country and period which are wanted to be studied.

Regarding the recent past of the Turkish economy, high unemployment, inflation and low economic growth keep remaining on the agenda as the common problems. Beyond any doubt, ensuring a sustainable economic growth in an economy is based on primarily ensuring economic stabilization. Like Turkey's, in an economy which is equipped with both powerful and treating features in terms of labor force, the interaction demonstrated by those three outstanding variables gains great importance.

In the present chapter, it is aimed to analyze the relationship among variables about annual economic growth in the period of 1960-2014, inflation rate and unemployment data in Turkey through modified Wald statistics developed by Toda-Yamamoto¹ and to present political suggestions in the level of macroeconomy for the economy of Turkey in the light of those findings. Accordingly, the literature review about causality relation of those three major macroeconomic variables mentioned in the present study was given, the macroeconomic developments in the related period were analyzed, and the findings of causality analysis which was conducted in the light of data were presented.

LITERATURE REVIEW

Being major macroeconomic variables of an economy, unemployment, inflation, and economic growth relation are often discussed in the literature, though they might be in the characteristic of variability from period to period. Like all of the other economies in the world, it is seen that the literature searching the causality relation among those factors which regard financial and real dimensions of the economy as well as in Turkey supports the stated evaluation. Focusing the literature in terms of unemployment, inflation, economic growth and the constraint of Turkish economy; the outstanding findings could be summarized as:

Uysal and Erdoğan (2003, p. 45) focused on the relation between the unemployment rates and price level in Turkey between 1980 and 2002. In the study, the related time period was evaluated according to different periods. Hereunder, the fact that there is a positive relation among variables in the 80s whereas there is a negative between 1990 and 2002 is remarkable. Karaca (2003, p. 254) searched the relation between inflation and growth in Turkey using quarterly data for the period of 1987-2002 and observed the existence of one-way Granger causality from inflation to growth. It is emphasized that the inflation in the economy of Turkey in the related period downgraded the growth rate.

Berber and Artan (2004, p. 115) analyzed the relation between inflation and economic growth in Turkey for the period of 1987-2003 and they found out one-way causality relation from inflation to economic growth. Furthermore, it is also a remarkable finding that inflation influences economic growth negatively. On the other hand, Terzi and Oltulular (2004, p. 31) analyzed the relation between the inflation and growth rates at the sectoral level in the economy of Turkey with annual data in the period of 1923-2003. The findings point out a negative causality relation from inflation to sectoral growth. Considering those findings, it is emphasized that inflation is a considerable obstacle to growth and price stabilization is significant in this respect.

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