Turkey: Inflation decreases but wages still lag behind

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According to recently published figures, the Turkish economy managed to remain within official guidelines for inflation in 2003. The State Institute of Statistics (DIE) announced that consumer prices rose by 0.9 percent in December over the previous month, and that the inflation rate for the past 12 months was 18.4 percent. Wholesale prices increased by 0.6 percent in December compared to November, up 13.9 percent over the same period.

The so-called economic stabilization programme for Turkey sponsored by the International Monetary Fund (IMF) targets a 20 percent maximum annual increase in consumer prices and a 16.5 percent rise in wholesale prices. In 2002 consumer prices rose by 29.7 percent and wholesale prices 30.8 percent.

Like most official analysts, the chief economist of the Turkish Industrial Development Bank (TSKB), Gunduz Findikcioglu, cheerfully welcomed the drop in inflation, saying, “After 30 years, something seems to be finally happening. It is hard to believe, yes. But there is a change in that inflation, a curse that has become over the years a kind of original sin, is about to stabilise at a reasonable one-digit level.” (Monthly Economic Bulletin of TSKB, December 2003).

A January 7 article by Mustafa Unal in the newspaper *Zaman*, headlined “Those made happy and unhappy by the record figures,” states, “Incredible economic figures! A 28-year-old inflation record is broken and it plummets to 18.4 percent. It has even been difficult to dream of such a thing, but it is now a reality. While the per capita income was US$2,300 in 2001, today it is over US$3,300.” Unal adds: “The stock exchange nears the 20,000-mark.”

This drop in the inflation rate has encouraged a great many in Turkey to peer through rose-colored glasses. A press account notes that Prime Minister Recep Tayyip Erdogan and other government ministers claim that “2003 was a challenging year, but despite that, their Justice and Development Party [AKP] government accomplished a great deal. On every occasion they point to the inflation figures, and call this their government’s most important success.” (www.dunyagazetesi.com.tr)

Over the past few weeks the Istanbul Stock Exchange Index has also been setting new records and reaching new heights; moreover, interest rates are dropping. In short, the trends in financial markets are positive. On the other hand, continuing budgetary and balance of trade difficulties reveal the growing imbalances that underlie and threaten the Turkish economy.

Two positive developments took place in 2003 that have perhaps encouraged the “rose-colored” approach. Last summer the IMF released $476 million in credit to Turkey and postponed debt payments, originally due in 2004 and 2005, to 2006. Of course the IMF thereby implicitly accepted that there was a serious need for such a delay. The postponement scuttled speculation that Turkey would have difficulty making its debt payments this year and next.

In addition, the American and Turkish governments signed a financial agreement in Dubai in September 2003—presumably part of the pay-off for Ankara’s support for the Iraq war—making available to Turkey as much as $8.5 billion in loans. The purpose of the financial agreement, according to Washington, was “to support Turkey’s ongoing economic reform process.”

These two events were significant enough to turn the generally bleak outlook into a more upbeat one. But this atmosphere has a quite limited expiry date. It won’t be long before a widening trade deficit and the growing budget deficit will show that this optimism was neither warranted nor sustainable. The so-called successes of the Turkish economy in 2003 mainly depended on an over-valued Turkish lira. The IMF debt postponement and the $ 8.5 billion loan agreement made this over-valuation possible. In fact, this resembles the “disinflation” policy implemented by the Turkish government in late 1999 using the exchange rate as the nominal anchor—and this program collapsed on February 2001 under its own weight.

The results for the working class of this temporary “recovery” have been devastating. Between 2000 and 2003 real wages fell dramatically. According to the figures released by DIE, workers in manufacturing have seen their real wages fall since 2001. A nominal wage increase of 82.6 percent between March 2001—in the aftermath of a major financial crisis in the country—and June 2003 was recorded at the same time the consumer price index jumped by 121.2 percent.

The biggest erosion of real wages took place in 2001, when the consumer price index rose 68.5 percent and wages increased only 31.8 percent. After this dramatic decline, real wages could never catch up in 2002 and 2003. In 2002 the increase in wages was matched by the climb in the consumer price index of 30 percent. In January 2003 the Turkish trade unions accepted another deal that eroded real wages for 2003-2004. According to this agreement, the lump-sum increase for the first half of 2003 meant roughly a 6-7 percent average increase in wages. In the same period, the consumer price index rose another 12 percent.

These figures reveal that real wages eroded rather dramatically. This is stated in the most recent Organization for Economic Co-operation and Development Economic Outlook report for Turkey: "Employment creation remains weak following sharp productivity growth in industry and labour adjustments in the public sector, with the non-farm unemployment rate reaching 13 per cent in the middle of the year. Real wages have declined, and disinflation is continuing with the support of currency appreciation." The report also reveals that labor productivity has increased: "Year-on-year inflation moved down to 21 per cent in October, from 33 per cent a year earlier. This was helped by moderate adjustments in administered prices, and by a rise in labour productivity."

Another report published by the Turkish Industrialists And Businessmen's Association Washington Office on October 3, 2003, entitled "Turkey: On the road again," says: "The initial real depreciation [of the Turkish lira] in February 2001 was later reversed and the real exchange rate came down to its pre-crisis level in January 2002, exactly one year after the crisis. Despite some fluctuations, the appreciation continued and the real appreciation between 1995 and July 2003 was between 35 percent (WPI) and 45 percent (CPI), according to Central Bank figures. The negative effect of the substantial appreciation of the Turkish lira on the external competitiveness was offset to a large extent by a sharp increase in labor productivity and a fall in real wages during the same period. The labor productivity in the private manufacturing industry went up by 20 percent between February 2001 and December 2002, accompanied by a fall in nominal wages in USD terms. As a result, the unit wage index in the private manufacturing industry decreased by 30 percent in USD terms." (http://www.tusiad.us)

Households are getting poorer not only because of eroding real wages, but also because unemployment is on the rise. Following the most severe economic crisis in February 2001, tens of thousands of people lost their jobs, while many of those working were left exhausted and desperate. According to research conducted by the Employers' Unions Confederation of Turkey (TISK), the unemployment rate in Turkey reached 16 percent. Even according to official statistics, the jobless rate has reached 30 percent among the "educated" youth in urban regions.

Simultaneous with these developments public sector spending has shrunk and government fiscal policy has been oriented toward eliminating budget deficits at the population's expense.

The most recent survey conducted by the Confederation of Turkish Trade Unions (Turk-Is) shows that Turkey's poverty line for a family of four went up to TL 1,383 million and the hunger line increased to TL 485 million as of November. (http://www.turkis.org.tr/kasim2003gida.doc)

Meanwhile the lowest-paid civil servant in Turkey earned TL 420 million (240 euros or $301) a month and the minimum wage, which millions of workers earn, was at TL 303 million (175 euros or $220).

The workers' movement, traumatized by the bloody repression of the 1980s and the 2001 economic crisis, and with the trade unions entirely corrupted, remains in a condition of stagnation. The Turkish working class at present cannot find an organizational outlet through which to defend its gains.

Under these harsh conditions the Turkish working class will sooner or later begin to move. To put an end to this crisis-ridden society, however, it needs its own revolutionary mass socialist party.