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THE POLITICAL ECONOMY OF TURKISH DEMOCRACY

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This chapter examines Turkey's democratic development from a political economy perspective. It observes that, from a historical viewpoint, the current interplay of economic and political phenomena in Turkey is atypical and problematic. In most of its multiparty history Turkey has exhibited fairly consistent and often predictable patterns of correspondence between policy strategies, dominant societal preferences, and underlying institutional arrangements, alternating between boom-and-bust cycles of growth accompanied by persistent, if staccato, democratic progress. The current period of relative economic stagnation and democratic backpedalling is unusual.

Yet despite this atypical pattern we should not lose sight of the overwhelming evidence in support of the positive long-term correlation between economic and political development, between qualitative increases in national wealth and the democratization of national politics. While there are different interpretations of this correlation, at a minimum it suggests that the structural impediments to Turkey's economic development cannot be good for its democracy in the long run. The most important of these impediments is the country's deepening middle-income trap, which in fact offers ample insight into the current juncture of democratic relapse. The inability to move beyond the middle-income range, it is argued, is both politically conditioned and complicates Turkey's democratic prospects. The point is consistent with Merkel's (2014) framework of "embedded democracy" as discussed in the editors' introduction, for he argues economic conditions (and social justice) provide the broadest context of democratic deepening.

The study of the interconnection between the economic and the political has a distinguished history, and the discussion begins with introducing three fundamental research directions in this tradition relevant to the question of democracy. This is followed by a brief account of Turkish democracy and economic development until the turn of the century, paying special attention to the interplay of distributive and policy trajectories. The third section examines the contemporary, post-2002 context, with a focus on both internal and external dynamics. It is in this otherwise brief period that we see most clearly the synchronous rise and fall of the country's democratic and economic fortunes, as discussed in the fourth section. Here we also note a disconcerting recent tendency to institutional deterioration at an unprecedented scale, which is strongly implicated in the country's current economic slowdown.

1. Political Economy, Development and Democracy

Political economy as a cross-disciplinary field rests on a simple premise: There is often such a close connection between politics (the collective organization of social life) and the economy (the provision of our material conditions of existence) that studying these two realms in conjunction can be useful to make sense of various social phenomena. This premise has inspired various research directions for the study of democracy, although only three will be introduced here. First, at the macro level, economic and political systems might be correlated. Second, at the micro level, most political economists study things that either equally belong to both realms (consider tax policy) or things that belong to one realm but influence the other profoundly (consider inflation). Finally, the intensified integration of national economies over the past few decades has had worldwide implications for democracy.

The first theme is the source of the common belief in the affinity between capitalism and democracy. One well-trodden path is to look for causal arrows running from the economic to the political, suggesting capitalist development facilitates democratic rule. Researchers in this camp often painstakingly qualify their theories to stave off the simplistic implication that wealth is sufficient condition for democracy. Barrington Moore's classic tome, *The Social Origins of Dictatorship of Democracy* (1966), is famous for its formula "no bourgeoisie, no democracy", but in fact his explanatory framework centres on the political effects of inter-class dynamics during early industrialization. Other well-known works that stipulate a path from capitalism to democracy are equally careful to emphasize the specificity of the European trajectory (Macpherson 1965; Rueschemeyer, Stephens, and Stephens 1992).

The opposite path, looking for causality running from democracy to wealth, is lately more popular as it has proved empirically more viable. After all, there is not a single low-income democracy in the world.¹ This realisation has in turn been used to expand the scope of economic policy advice. From the mid-1990s onwards, the International Monetary Fund (IMF) and the World Bank have shifted their attention to include items formerly unfamiliar to economists' toolkits, such as the rule of law and good governance—all closely related to the quality of democracy (e.g. World Bank 2002). This reorientation was informed by economic analysis that identified the quality of institutions as a potential determinant of economic performance (e.g. North 1990), which continues strongly to this day, best known perhaps for a growing preoccupation with 'inclusive institutions' (Acemoglu and Robinson 2012). Democracy, in this formulation, is a necessary condition for economic development.

The alternative to both paths is to look for a possible mutual reinforcement of democracy and capitalist enrichment. This notion was central to early postwar scholarship. Daniel Lerner (1958) considered modernization a holistic transformation that involved urbanization, increases in literacy, and changes in social values, whereas Gunnar Myrdal (1957) proposed 'circular cumulative causation' as the best-equipped approach to capture the multi-dimensional changes gripping developing countries. The Human Development Theory, explored by Yeşilada and Noordijk (in this volume), also advances a holistic view, exploring possible correlations between capitalist development, political liberalism and social values.

Few political economists today work on such macro phenomena. Most scholars specialize in micro and medium-range questions. These are obviously too many to list here, so I will address just two broad topics pertinent to the study of democracy in late developers such as Turkey: modes of interest intermediation and distributive politics. On the issue of interest intermediation, the literature on developing countries has long maintained that ideal-typical interest group politics is seldom the case. Many developing polities suffer from pathologies related to both the aggregation of collective interests and from non-transparent ties between the state and social interests. Clientelism, state capture, and graft are rampant in these contexts, undermining the growth of impartial and capacious bureaucracies. Empirical

research, by contrast, shows that development-friendly policies are accompanied by a coherent bureaucratic structure that maintains close ties with societal interests while acting independently—a condition Peter Evans (1995) termed “embedded autonomy.” We will return to this question of bureaucracy and state-society relations in the fourth section.

Equally important is the distribution of economic resources. Although the term “distributive politics” has overwhelmingly negative connotations in American political science, and is often seen as code for clientelism (e.g. Stokes et al. 2013), most political economists subscribe to a broader understanding. They see distributive politics as rooted in social inequality, with profound implications for inter- and intra-class relationships and thereby for democratic transitions (Haggard and Kaufman 1992; Haggard and Kaufman 2012). The salience of distributive issues also means that policymakers have a built-in preference for growth-oriented policies: the larger the pie, the greater the leeway to manage distributive conflicts, through populist side-payments if necessary. Policy paths that *both* facilitate stable growth *and* allow ample discretion for redistribution are thus extremely precious for politicians, as we will discuss in relation to Turkey in the third section.

Finally, the rapid integration of national markets since the 1970s has produced an outpouring of research, transforming ‘international political economy’ (IPE) from a niche literature into a massive scholarly field. Amongst the numerous insights IPE can offer into the study of democracy worldwide, two stand out as particularly relevant here. First, from the 1990s onwards, many scholars began suspecting that globalization, to the extent that it constrained the policy autonomy and capacity of states, also undermined democracy. In turn rising actors of this new era, from multinational corporations to international and supranational organizations, suffered from varying levels of democratic deficit (Held 1997). This global context put developing countries at a particular disadvantage. Fragile democracies were sorely tested as premature exposure to global markets triggered financial crises that bred political instability, the neoliberal reordering of production and investment regimes strained preexisting distributive contracts, and the global South appeared shut out from decisionmaking in platforms of global economic governance such as the IMF and the WTO. Only countries with extensive social safety nets were able to put global integration in the service of democratic strengthening (Rudra 2005). Yet despite these visible challenges, the 1980s and 1990s were surprisingly good decades for democratization, with significant overall progress recorded in Asia, Central and Eastern Europe, and Latin America.

The 2000s ushered in a considerably different juncture. Unprecedented increases in trade and liquidity earlier in the decade, followed by the relatively limited damage the developing world incurred during the global financial crisis of 2008-9, contributed to a long stretch of economic catching-up by the leading countries of the global South. Yet the improved economic fortunes of developing and emerging countries did not seem to translate into concrete democratic gains, as illustrated by the Chinese and Russian examples (de Mesquita and Downs 2005). A few countries, especially in Latin America, consolidated their transitions, and some sub-Saharan African nations fared better, but resilience of authoritarian systems and persistence of hybrid regimes have proved to be more common patterns, a trend further accentuated by the failed transitions in the Middle East and numerous instances of democratic backpedalling elsewhere. It would seem the twenty-first century thus far does not fit the long-term historical pattern of convergence between democracy and prosperity.

2. A Brief (Political-Economic) History of Turkish Democracy

We have isolated three main vantage points from which political economists can reflect on democracy: a possible affinity between economic development and democracy; the preferences of collective interests and consequent distributive strains; and external factors, in

particular, patterns of integration with the international economy. To these, a fourth variable must be added in the Turkish context: the role of economic crises.

Let us begin with this last one, for economic crises have served as important catalysts for policy and political change in Turkey (Kazgan 2005). Modern Turkish history is replete with examples of such crises triggering democratic breakdowns. The 1958 crisis was followed by the 1960 coup, and the debt crisis of 1977-78 had a detrimental impact in the run up to the 1980 takeover. Many believe that the 1997 intervention was in part conditioned by the 1994 shock. The 2001 crisis did not lead to a military takeover, but still wiped off the leading centre-right parties, paving the way for the rise of the AKP (Öniş and Keyman 2003).

The suggestion here is not that the Turkish military perennially exploited economic hardships to realize its power ambitions. Rather, crises marked the exhaustion of existing economic policy regimes, rendering null the underlying political settlements and distributive coalitions, thus resulting in full-blown political crises (Öniş and Şenses 2007: 259-62). The 1960 and 1980 coups were clear examples of this dynamic, with the military justifying its intervention not on economic but purely political grounds. Economic crises have other significance, such as serving as critical junctures for party-political reshuffling and often exposing the country to influence by external actors such as the IMF, but these do not connect with our query directly. One straightforward impact for democracy, though, is the sudden post-crisis increase in the authority of technocratic policymaking at the expense of the preferences of political incumbents, which should be registered as a core constraint in the aftermath of the 2001 crisis, as will be discussed later.

For the political economist interested in the evolution of Turkish democracy, then, identifying the country's successive economic policy regimes with their attendant distributive coalitions is a more central task than dwell on the political consequences of the crises that brought these regimes to an end. The point could not be overemphasized, especially given the unusual political-economic background of Turkey's transition to multiparty politics in 1946. True, assuring American support in the immediate aftermath of the Second World War was a crucial motive for Turkey's statist bureaucratic elite, which formed the backbone of the ruling Republican People's Party (CHP), to engineer a swift transition to multiparty politics. But they were also calculating that such a move would help deflect growing opposition from a fledgling urban private sector and provincial landowners by harnessing support from workers and the peasantry for the statist, and potentially redistributive, elites. Seen this way, Turkey's precocious "second wave" transition was in part devised as a peaceful way of resolving inter-elite conflict (Waldner 1999: 58-60).

Things did not go according to plan, as the Democratic Party (DP) won the 1950 elections by unifying the gamut of rural interests (that is, large landowners, middle farmers, and smallholders) with the emergent private sector on a market-oriented platform. The goal was agriculture-based integration with the world economy riding on high post-war prices. In the meantime, a private sector-led industrialization drive was to take hold. Yet problems began to mount from the mid-1950s onwards, forcing the DP to respond with two distinct measures: populist redistribution (primarily toward the countryside via an expanding a generous agricultural support regime) and infant industry protection to compensate for lack of competitiveness. Within a short few years, the Turkish state was dragged right back into distributive relations and was forced to bolster its interventionist stance.

The switch in the 1960s to import-substituting industrialization (ISI) was therefore a natural extension of the policy constraints that characterized the final years of the DP rule. The period 1962-1976 was remarkable in that it simultaneously recorded high growth rates (6 percent on average) while ameliorating distributive strains under a mixed-economy model. In the background of this feat was a grand social compromise that joined together the interests of four crucial actors: the bureaucrats, the industrial bourgeoisie, organized labor, and the

peasantry. To the modernist bureaucratic elites, ISI would appeal in its continuation and systematization of pre-existing norms of state intervention, quelling their fears of disempowerment under electoral democracy (cf. Heper 1976). ISI was a good bargain for the industrialists as well, as it not only offered long-term protection from foreign competitors, but also came with incentives such as tax rebates and guaranteed access to foreign exchange.

But in an open polity the fit between elite factions could not work without the consent of popular interests. Herein lay the significance of taking aboard organized labor and the peasantry. In a closed market, Turkey's smallholders enjoyed relatively high support prices, which goes a long way in explaining why, as late as 1980, nearly 70 percent of Turkey's workforce was in agriculture. Meanwhile their urban counterpart, organized labor, was concentrated in large private and public sector enterprises, and would greatly benefit from the liberal political atmosphere ushered in by the progressive 1961 constitution. From 1963 to 1976, real wages in manufacturing more than doubled thanks mainly to union activism (Boratav 2003: 137).² This was an acceptable price to pay for private industry, given that high popular incomes, apart from keeping distributive tensions in check, also assured an ever expanding domestic market for consumer goods.

The problem with Turkey's national developmentalist, mixed-economy regime was an unfortunate coupling of import dependence and lack of export competitiveness. The ensuing vulnerability to foreign exchange shortages began to haunt Turkish ISI not long after the first oil shock, culminating in a classic balance of payments crisis towards the end of the decade (Barkey 1990). In turn, Turkey's market reformers in the early 1980s considered industrial export-oriented integration with the world economy a strategic priority above all else. Successive IMF and World Bank programmes were instrumental in this drive, advocating fiscal adjustment as well as trade and domestic financial liberalization in accordance with the orthodox neoliberal, Washington Consensus recipes of the time (Arıcanlı and Rodrik 1990).

Turkey's first generation market reforms had been implemented under semi-authoritarian rule, and at great cost to the popular interests that made up the ISI coalition. But the revival of competitive politics by the mid-1980s quickly transformed these pent-up grievances into strong redistributive pressures. Meanwhile, rapid integration with international financial markets following domestic financial liberalization offered a flexible context for managing fiscal deficits, thereby producing soft budget constraints to address demands from below. A succession of weak coalition governments throughout the 1990s responded favourably to these demands via populist increases in wages, salaries and agricultural prices, yet refused to undertake systematic improvements in economic governance. By the end of the decade, the Turkish economy displayed a series of interrelated ailments: chronic high inflation under soaring public debt, a highly exposed yet under-regulated financial system, and sluggish industrial development, all implicated in unsustainable, boom-and-bust cycles of foreign capital-led growth. A badly-designed IMF program further aggravated Turkey's downward spiral that ended in a combined banking and fiscal crisis in 2001 (Cizre-Sakallıoğlu and Yeldan 2000; Öniş and Rubin 2003).

Two conclusions follow from this brief account spanning half a century. First, international economic factors had little direct role to play in the evolution of Turkish democracy in the latter half of the twentieth century. The most that can be surmised is that Turkey's historically and geographically specific position in the international division of labour as a capitalist late developer did impact the composition of and the balance between various classes and class factions, but this impact was naturally highly mediated by initial conditions and contingent events on the ground, and cannot be delineated properly without fresh historical analysis. Encounters with the IMF, meanwhile, surely led to loss of policy autonomy, but hardly constituted the main obstacles to democratic institutionalization.

Second, and far more crucially, electoral democracy was used to good effect to manage the distributive strains associated with the tumultuous transformations in the Turkish economy. With both state-led and market-oriented economic strategies reliant on popular legitimacy, Turkish capitalism settled on a comparatively gentle, socially inclusive path, whereby political feasibility often trumped economic sustainability. This is not to suggest a rosy picture—neither were all collective interests democratically or effectively represented (e.g. Bianchi 1984; Heper and Keyman 1998), nor were there concerted efforts towards equitable income distribution (Boratav, Yeldan and Köse 2000). Nevertheless, sufficient resources were deployed to retain the acquiescence of rural and urban masses, and not just in the form of targeted side-payments but also through relatively early institutionalization of a range of public services in health, education and social security.

Ironically, then, with plain electoralism sufficient to manage the potentially most explosive avenues of distributive conflict, the demand for further democratization was almost never articulated in terms of mass economic disadvantage. Rather, especially in the 1990s, challenges to Turkey's limited democracy originated primarily from identity politics, that is, Islamist and Kurdish movements brewing in the straightjacket of official Turkish nation-building (not that they were devoid of all economic underpinning). About the only clear-cut class-based demand for democratic consolidation in the 1990s came from the very top, that is, Istanbul-based big business organized under TÜSİAD (Öniş and Türem 2002), partly as an extension of their strategic support for Turkey's potential EU membership.

3. A Structural Transformation?

The consequences of the 2001 crisis for Turkish economic policymaking and party politics were profound. The crisis illustrated conclusively the unsustainable character of Turkey's half-hearted market opening; fiscal profligacy, regulatory laxity and an overall lack of macroeconomic coordination could not be tolerated any longer. From this understanding followed a series of IMF and World Bank-led programs with comprehensive institutional reform components. Charged with the implementation of this wide-ranging initiative was Kemal Derviş, a former World Bank vice-president called on duty by the incumbent coalition government. Meanwhile on the party-political front economic collapse further eroded the credibility of the main center-right and center-left parties, which had already been severely weakened by corruption scandals and sectarianism throughout the 1990s. The AKP rose to power in this extraordinary political context, securing a rare single-party majority government in the 2002 elections (Öniş and Keyman 2003).

The party's first term in office (2002-2007) was characterized oddly by both stringent external policy constraints and ample room for domestic political manoeuvring. Perceptions of continued economic vulnerability, combined with signs of robust recovery, rendered opposition to ongoing IMF and World Bank programmes unfeasible. A second set of constraints stemmed from the sudden progress made in Turkey's EU candidacy bid, which prompted considerations of harmonization in various policy areas (Öniş and Bakır 2007). These dual external anchors resulted in a firm commitment to rebuilding the Turkish state's economic arm on grounds of macroeconomic stability and enhanced regulatory capacity.

On the political front, the AKP was not only blessed with a surprise parliamentary majority, but the agenda outlined above also compelled it to cobble together a broad reformist coalition. The party's organic support base consisted of small and medium-sized entrepreneurs of the conservative Anatolian heartland, who felt systematically neglected during the heyday of state-directed developmentalism that favoured metropolitan big business (Gülalp 2001). On its path to power, the AKP had managed to combine the aspirations of this

class segment with the frustrations of the crisis-hit urban and rural poor under a wide conservative banner. But the externally-conditioned economic reform program it inherited from Derviş principally reflected the long-standing priorities of, first, Turkey's industrial conglomerates and, second, the liberally-minded segments of the economic bureaucracy.

The heterodox composition of this broad coalition on the one hand and an exceptionally favourable international economic context, on the other, allowed the AKP to implement the reforms selectively. In policy areas that mattered the most to external stakeholders and the domestic big business, such as banking regulation, fiscal discipline and central bank independence, the party genuinely strived to consolidate the reforms. In items that were somewhat less visible yet important to its original support base, however, it toed a more calculating line, especially from 2004 onwards. One example of the latter included the anti-corruption and public procurement reforms, the full implementation of which would have deprived the party of any opportunity to reward and nurture smaller, government-aligned conservative capital factions via public contracts. Another pragmatically discarded initiative was the World Bank-led agricultural subsidy reform, the implementation of which would have made the AKP the first center-right party in Turkish history structurally unable to woo the rural vote via time-honoured populist side-payments. In both cases, reforms were first watered down and then gradually reversed (Güven 2012).

If one reason why these gross deviations did not draw much criticism was the party's continued commitment to some other vital reforms, a more crucial factor was an extraordinarily fortuitous global economic context marked by record increases in trade and capital flows that greatly facilitated Turkish economic performance. Provided reasonably wise economic policymaking, the good times floated all boats simultaneously, with low-income and middle-income countries as a group growing at an annual average of 7.3 percent between 2002 and 2007. At 6.8 percent Turkish growth rates for that same period lagged slightly behind, yet were much higher than the country's historic average of around 4 percent (World Bank, online). More important still for outside observers such as the IMF and the EU was the rapid improvement in Turkey's macro balances, evident in a rapid decline in consumer inflation, a booming yet stable banking sector, and an increasingly sustainable debt burden. Add to this impressive record a revitalized commitment to mass privatization (Öniş 2011) along with an unprecedented increase in foreign direct investment, and it becomes abundantly clear why the above transgressions did not cause much alarm.

In hindsight, the AKP's selective implementation of Turkey's externally-conditioned post-2001 programme during its first term harboured a hybrid policy strategy that has continued, with minor exceptions, to this day: One side of this strategy involves commitment to an orthodox vision of macroeconomic stability to minimize the possibility of a classic banking or balance of payments crisis that brought down a great many governments in Turkish economic history. On the other side is the party's desire to maximize its discretion over economic resources to both manage distributive strains from below through enhanced inclusiveness and offer preferential treatment to business interests with which it has been organically linked. Although this hybrid strategy worked reasonably well at first, it began throwing up serious challenges from 2007 onwards as the party consolidated its power domestically, and yet began facing a far less forgiving economic environment abroad. Let us examine these challenges briefly before discussing their implications for Turkish democracy more systematically in the next section.

One significant challenge concerns the changing dynamics of state-business relations. While the second phase of market reforms in Turkey under AKP rule has amounted to a far deeper process of liberalization than in previous decades, the party's indiscriminate popularity among business factions is no more as its relationship with big business, especially the old captains of industry, soured steadily in recent years. Tensions were already brewing

since 2006-7 due to loss of reformist momentum on the side of the government. A delayed and fairly limited response to the global financial crisis of 2008, which embraced neither a third successive deal with the IMF nor an early and vigorous stimulus plan as in many other countries, constituted the breaking point in relations (Öniş and Güven 2011). In the background of this decision were the two conditions introduced above, that is, continue an orthodox stance on fiscal-financial stability (thus dismiss the possibility of an ambitious stimulus effort in favour of a more modest and fiscally benign plan) while maintaining discretion over resource allocation (thus dismiss a potentially restrictive new deal with external agencies such as the IMF). By contrast, since the global crisis, government policy has openly favoured rising conservative capitalist groups, both structurally by offering incentives to sectors where these groups operate heavily such as retail and construction, and individually through the increasingly opaque allocation of state contracts. These efforts to nurture a dominant conservative business class in direct competition to Turkey's conventionally secular big business establishment have inspired much recent research (e.g. Buğra and Savaşkan 2013).

Another challenge that originated from the party's dual strategy relates to its relations with popular interests. On the one hand, despite its commitment to fiscal discipline, the AKP, in the time-honoured tradition of all successful mass parties in Turkish political history, has also embraced redistributive side-payments as an instrument to preserve its popular legitimacy. As Sabri Sayarı (in this collection) explains, as a dominant single-party it used its "resource advantage" effectively. This, however, was a "controlled populism" (Öniş 2012) that resorted to both older avenues such as agricultural price supports and newer ones such as direct transfers to the poor under revamped social assistance schemes (Buğra and Candaş 2011; Yentürk 2013). Equally important has been the party's partial reliance on universal, rather than targeted, measures, such as improvements in social services, particularly in health care. A more extreme example of the latter is the rapid growth of financial markets over the past decade, expanding access to consumer credit with potentially positive welfare effects (e.g. accelerated home ownership). On the other hand, this contract with popular interests is sustainable only under continuous high economic performance. Generous fiscal outlays require high tax receipts in a growing economy. Credit expansion cannot be allowed to consistently outpace output growth at the risk of creating perilous structural imbalances. Seen this way, the performance of the past few years is not encouraging. Sluggish growth averaging 3 percent per year since 2012 along with chronic high unemployment hovering around 10 percent calls into question the feasibility of the AKP's mass political appeal.

A final challenge is rooted in the main omission of the AKP's hybrid strategy: development. A key problem with Turkish political economy in the past 15 years is the replacement of the national developmentalism of the preceding half-century with orthodox fisco-financial stability as the main counterpart of distributive politics in a larger societal settlement. It is therefore no surprise that, transformations in politics and policy aside, the structure of the Turkish economy and thereby Turkey's position in the wider international economy have remained virtually unchanged under AKP rule. In fact, the problem goes beyond the past decade and a half: After 35 years of experimentation with freeing and opening markets, Turkey still features a private consumption-oriented model of growth characterized by weak domestic savings and dependence on foreign capital, manifested in perennially high current account deficits—the very problem that triggered the collapse of Turkish ISI in the first place (Taymaz and Voyvoda 2012; Halıcioğlu 2012). In the background of this model is not what Turkey can do but what it cannot: high-tech, high value-added, preferably export-oriented industrialization, which for the past two hundred years has been the only consistently proven catch-up strategy for large economies.

4. Democratic Development under Middle-Income Trap

Turkish economic performance over the past few years is considerably less impressive in comparison to the mid-2000s. In making sense of this shift in fortunes, one cannot dismiss the impact of sea changes in the international economy. Just as a fortuitous global context helped the high growth performance of 2002-07, so the continued external hardships following the global crisis would in part account for the significant deceleration in Turkish growth rates to an annual average of just 3.3 percent in 2008-14 (Table 1).

< **INSERT TABLE 1 APPROX. HERE** >

Yet problems inherent in Turkish economic structure and strategy are equally to blame. In fact, there is a broad consensus among economists today that Turkey has been caught in what is called the “middle-income trap”—an economy’s prolonged inability to proceed into the high per capita income range, which the World Bank currently sets at US\$12,276. Arbitrary though this figure may seem, the large number of countries hovering around the US\$10,000-15,000 threshold (in current US dollars) for long periods indicates otherwise (cf. Eichengreen, Park and Shin, 2013).³ This inability is down primarily to the stagnancy of a country’s production profile, that is, what a developing economy specializes in producing and at what level of productivity, which in turn translates into a broadly favourable or unfavourable overall terms of trade in the international economy. Continued urbanization or capital investment are seldom sufficient for the sorts of breakthrough in production profile that could offer a pathway out of middle-income. Rather, most economists would suggest that such breakthroughs would entail shifts in industrial strategy (including an emphasis on research and development with corresponding incentives), advancements in ‘human capital’ (cultivation of skills and educational attainment for higher labour productivity and innovation), and structural improvements in institutional quality (including government effectiveness, transparency, the legal system and so on).

Let us now consider each of these three areas—that is, industrial policy, which primarily concerns state-business relations; human capital, which primarily concerns relations with popular interests; and institutional quality, which primarily concerns legal and bureaucratic organization. In none of these areas can we currently observe strategies geared towards overcoming the country’s growth stagnation. Rather, ruling preferences in each of these areas exhibit severe negative implications for the quality of democracy. Turkey’s deepening middle-income trap is thus accompanied by its democratic backpedalling.

First, to begin with state-business relations, improving Turkey’s production profile would require steering firms towards higher value-added sectors via smart industrial policy. But although Turkey has in place various R & D supports, and despite extensive talk of a need for technological upgrading,⁴ it is widely acknowledged that government policy in recent years has strategically prioritized nurturing conservative groups with organic links to the party against the old industrial conglomerates. The problems with this stance with respect to economic strategy are obvious: First, coming from the relative margins of Turkish capitalism, conservative groups are concentrated in sectors such as construction, energy and retail. With little, if any, presence in high-tech manufacturing, they cannot be expected to substantively contribute to Turkey’s industrial upgrading any time soon. Second, Turkish big business against which the rising conservative groups position themselves is indeed very small compared to the size of the Turkish economy. Consider, for instance, that the only Turkish company on the Fortune500 Global list in 2014 was Koç Holding at 341st place,

operating in numerous sectors from auto manufacturing to banking, energy, retail and consumer durables. Politically discriminating in favour of even smaller firms cannot possibly bring about national champions to carry forward an upgrading drive.

The overt favouritism that has come to characterize state-business relations exacts serious political costs as well. The main problem here is the reversal of some important gains of Turkish modernization, however limited they were. Turkey has had its fair share of graft and cronyism in the past, but the scale of corruption and collusion exposed over the past few years has no precedent. Accompanying this is a generalized deterioration in 'stateness', ranging from the chronic decline of meritocracy in public appointments to the open politicization of Turkey's 'autonomous' regulatory agencies, loss of transparency in economic decisionmaking, and the particularly sorry state of the judiciary following the AKP's recent rift with the Gülen movement. All these trends could be considered traumatic to political development and an affront to democracy, and yet they are also instrumental in nurturing a government-friendly business class. Rising through the ranks of this class are businessmen who control numerous TV stations and newspapers unabashedly toeing the AKP line, while others that rely on investment supports and/or public tenders may simply be complicit in their acquiescence. What is certain is that the conservative business interests closely aligned with the government have no unqualified demand for democratic consolidation, and many may indeed have more to lose than gain in the short run if Turkey somehow meaningfully resumed the good governance and anti-corruption reforms it had started in the immediate aftermath of the 2001 crisis.

Second, relations with popular classes are afflicted with similar problems. The AKP's approach to societal well-being has been ambiguous to say the least. On the one side is the image of an inclusive neoliberalism that extends the scope of social assistance programs, improves public services, and on the whole continues the Turkish right's rather uncanny distributive sensibilities (Bozkurt 2013). On the other side is an extreme form of neoliberal greed whose barbarian exploitation of land and labour is comparable only to early Victorian capitalism, as manifested in the catalogue of neglects in workplace safety and a relentless assault on the environment that tend to spark violent clashes with local inhabitants. Close observers of the Turkish context will note that the latter transgressions are frequently related to operations of the rising conservative capital factions discussed above.

If escaping the country's middle-income trap requires improving 'human capital', the picture outlined above suggests that the government strategy towards society at large has been missing this particular component. Confusion over official classifications aside, most observers would agree that improved social programs and public services have meant progress in poverty alleviation. Yet when it comes to cultivating a workforce endowed with skills supportive of driving up productivity and innovation, then Turkey represents a failure. PISA scores are stagnant, and while tertiary enrolment spiked, it is often acknowledged that quality has not caught up. Besides, some technical fields and most basic sciences crucially important for industrial upgrading suffer from chronic undersupply.

This state of affairs is hardly conducive to democratic consolidation. For Turkey's poor, the expanded social programmes are little more than a massive exercise in constituency clientelism. Rather than enshrined in citizenship rights, or reflected in well-institutionalized tri-partite arrangements that also clarify obligations of third parties (read, employers) and are enforceable via collective action, improvements in the circumstances of Turkey's popular classes seem increasingly tied to political discretion. Growing dependence on the types of side-payments that no longer lie within the realm of productive relations and can easily vanish at the first government change in turn breeds a culture of acquiescence and disincentive to dissent. And the political counterpart of buying the consent of the working poor is to crush any resistance from disaffected middle and upper-middle classes. In fact, one

important outcome of the government response to the Gezipark protests was the further alienation of the country's educated workforce. A government genuinely committed to industrial upgrading would be looking to prop up the ranks of these youth rather than demeaning them in perhaps the most revealing episode of Turkey's recent authoritarian slide.

Third, development economics in recent decades has placed much emphasis on institutional quality. Whereas Douglass North's (1990) widely known formulations conceived institutions as "the rules of the game" and prioritized their "adaptive efficiency" rather than suitability for particular purposes, current scholarship and policy advice are both wider in scope and specific in content (e.g. Rodrik 2000; 2006). Thus, on the one side there is greater appreciation of *broad institutions* such as the rule of law, property rights, political accountability, transparency, and bureaucratic quality. On the other side are fairly *narrow institutions* related to individual policy domains, such as central bank independence, financial regulations, public expenditure regime, and various other sectoral arrangements. Although some assumptions and policy extensions of this 'institutional turn' in economics have attracted much criticism (e.g. Przeworski 2004), on the whole few scholars today would doubt that institutions, however defined, have important consequences for economic performance.

In that regard, Turkey since the late 2000s has experienced fairly rapid institutional deterioration. Some signs of this tendency have already been mentioned in the above discussion of state-business relations. What needs emphasizing here is that this deterioration has been across the board, encompassing both broad and narrow institutions. Consider, with reference to broad institutions, the publicly very well-known corruption scandals of late 2013 concerning four AKP ministers, which so far went unprosecuted despite incontrovertible evidence. The counterpart of this tendency on the side of narrow institutions is the public procurement regime and the affiliated government agency; rules and regulations in this critically important area have been revised so often and so flexibly at times that it is frequently reported that irregularities are difficult to even identify.

The problem with institutional deterioration is of course not the mere price of graft in terms of damage to public purse—although recent 'rumours' regarding large revolving loans by public banks to several pro-government business groups are fairly grim (Sağlam 2015). In the current Turkish context institutional weaknesses of this kind have come to directly undermine economic performance. One major impact concerns business climate and confidence. Strong perceptions of widespread corruption, deficient rule of law and poor governance serve as strong disincentives against investment decisions, foreign as well as domestic. To the extent poor governance is seen as a steady state, periods of economic and/or political uncertainty, as has been the case in much of 2015, become so much more difficult to endure. Not only investments are deferred but the cost of lending increases, posing a particularly hefty problem for the Turkish economy given its persistent foreign deficits.

Another important cost of institutional deterioration for economic performance is through direct loss of capacity, which is just as difficult to replace as actors' confidence. A decline in government effectiveness in a particular policy domain due to, for example, favouritism in staff appointments or sheer decision-making is bad enough. Yet developments over the past few years indicate that this decline in effectiveness now stifles core organizations of economic governance to the point of endangering macroeconomic stability. Central bank independence has been badly eroded due to incessant public criticism by Erdoğan and several AKP ministers of the potential use of interest rate hikes as a monetary policy instrument. Meanwhile attempts at macroprudential reforms after the global crisis exposed the limited powers of the Banking Regulation and Supervision Agency, with the initiative eventually requiring involvement of none other than the Central Bank. In addition, a major disagreement that erupted amongst the ranks of the government regarding whom to

appoint as the Undersecretary of the Treasury left the organization without a head for most of 2014. Finally, successive elections in 2014 and 2015 saw a considerable expansion in fiscal outlays—quite uncharacteristic of the AKP pre-2011. The party’s commitment to fiscal-financial stability and macroeconomic prudence appears to have mostly vanished, evident also in the political marginalization of the stability-conscious and outward-looking Ali Babacan, who during his long tenure at the helm of the economy had largely continued on the path opened up by Kemal Derviş.

Finally, the international context today is supportive of neither an economic nor democratic breakthrough in Turkey. Emerging countries weathered the global storm better than rich democracies in 2008-9, but conditions have deteriorated markedly since 2012 as recovery began to take hold in the North. The rest of the decade is expected to continue this uninspiring trend, with a return to the globally fat years of the AKP’s golden age highly improbable. And although qualitative improvements in productivity and competitiveness take a long time to bear fruit, from the Middle East to Russia and the eurozone, the current economic prospects for Turkey’s main export partners are hardly encouraging for Turkey to invest too heavily in a costly industrial upgrading drive. Meanwhile politically, the absence of the IMF since 2008 and to some extent the weakening of the EU anchor both represent a welcome freeing up of national sovereignty. However, their departure from active duty in Turkey also means a clear lack of direct external incentives for improving governance and institutional quality, and one less hurdle each on the path of any incumbent willing to bend democracy and the rule of law.

5. A Time to Decide?

Returning to the main theme introduced at the outset of this chapter, the well-researched affinity between economic and political development finds another positive identification in Turkey. Not only does our account start with a relatively poor autocracy and end in a country snapshot that is more democratic *and* prosperous, but it also suggests that periods of political opening and economic progress did often overlap (the 1960s and the 2000s, in particular). From this long-term perspective it is obvious that the current juncture constitutes a particularly glum episode, bearing all the hallmarks of simultaneous economic and political exhaustion. Turkey has been caught deep in a middle-income trap, aggravated further by exclusionary state-society relations and institutional weakening in a context of democratic backpedalling.

What to make of this gloomy picture? Two points: First, the odd thing about both democracy and prosperity is that we often assume both are desirable to the maximum; we do not ask whether societies might be content with a certain level of freedom or wealth at a given time. The question is relevant in the Turkish context as the country has made relatively substantial progress in both domains over the past two decades, and yet in both also seems to have reached the limit of what can be accomplished without major transformation in multiple related areas. Other chapters in this collection point out various structural (micro and macro) impediments to consolidation of Turkish democracy. For economic development, it is the middle-income trap that is the final frontier—crossing on the other side of the border requires building a different economic (and quite possibly political) organization, with unknown costs. However, what those of us who think such breakthroughs should happen, that democracies should be consolidated, that economies should reach high-income level, rarely consider is that the current economic or political status quo may well be sustainable. It is likely many Turkish citizens (just as many Russian or Chinese citizens) are content with their improved circumstances they themselves observed within their lifetimes, and are unwilling to risk much

for further improvement. Acknowledging that possibility is analytically liberating as it allows studying existing dynamics without having to consider their suitability for a possible future.

At a related and more concrete level, we should be mindful of the magnitude of changes experienced in countries such as Turkey. While it is true that overall patterns (such as growth strategy or position in the international division of labour) remained more or less stable, the tumultuous paths of actors and institutions in short periods of time can produce strong public and policy incentives to merely keep things together. I suspect this may have been one motive behind Turkey's relatively inert economic strategy for the past few years, with implications for democracy. The staying power of this motive is unknown. Turkey is *not*, as the cliché goes, "at a crossroads", nor exactly are most emerging powers. Turkish economy and democracy both have the option of continuing as is for a while, that is, exhausted but not imploded, rather than force ordinary citizens into a decision as to how much they are willing to risk sacrificing to make a breakthrough in either domain. After all, a faulty democracy stuck in the upper middle-income range is not the worst Turkey has seen.

NOTES

¹ See <https://freedomhouse.org/report/freedom-world/freedom-world-2015#.VZgMMUa1OK8>; <http://data.worldbank.org/about/country-and-lending-groups> (accessed 02 July 2015). In fact, the only lower middle-income free countries are Guyana, India and Senegal. The remaining 87 "free" countries are either in the upper middle-income or in the high-income range.

¹ Keyder (1987: 161) notes that "wage levels in Turkish manufacturing...were considerably higher than warranted by the relative level of GNP per capita. For example, in 1977 the average daily wage in Turkey was \$11.14; this compared with \$11.72 in Greece, \$20.44 in France and \$23.56 in Britain. Per capita incomes in these countries were two and a half, six and four times the Turkish levels respectively. (...) [I]n 1974 Turkish manufacturing wages were three times the level of Korean wages. In 1977 they were double, and in 1979, despite very rapid increases in Korea, still 50 per cent higher."

¹ Note that Turkish GDP per capita ranged between US\$8,500 and US\$10,800 since 2008, depending primarily on exchange rate fluctuations. In 2015-17 it is expected to hover around US\$9,000. For debates on Turkey's middle-income trap, see Yeldan et al. (2013) and World Bank (2014). Classic cases are found in Latin America (especially Brazil, Mexico and Peru) and South East Asia (especially Malaysia and Thailand).

¹ Most recently, in Fall 2014 a series of "priority transformation plans" were announced, comprising some 90 components and nearly 1,300 individual measures, yet at the time of this writing (Summer 2015) there is no discernable change in policy.

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Table 1. Turkey: Selected Indicators (2002-2014)

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
GDP (US\$ Billions)	232.5	303	392.2	483	530.9	647.2	730.3	614.5	731.2	774.8	788.9	823.3	799.5
GDP Per Capita (US\$)	3,571	4,587	5,856	7,117	7,727	9,310	10,382	8,624	10,112	10,584	10,646	10,975	10,530
GDP Growth (%)	6.2	5.3	9.4	8.4	6.9	4.7	0.7	-4.8	9.2	8.8	2.1	4.2	2.9
Imports (US\$ Billions)	51.5	69.3	97.5	116.8	139.6	170.1	202.0	140.9	185.5	240.8	236.5	251.7	242.2
Exports (US\$ Billions)	36.1	47.3	63.2	73.5	85.5	107.3	132.0	102.1	113.9	134.9	152.5	151.8	157.6
Current Account Balance (%GDP)	-0.3	-2.5	-3.7	-4.6	-6.1	-5.8	-5.5	-1.97	-6.2	-9.7	-6.1	-7.9	-5.8
FDI (US\$ Billions)	0.6	0.7	1.1	8.1	17.0	18.4	14.7	6.2	6.2	14.2	10.1	9.3	8.5
Fiscal Balance (%GDP)	-11.4	-8.8	-5.4	-1.2	-0.6	-1.6	-1.8	-5.5	-3.6	-1.3	-2.0	-1.2	-1.3
Total Public Debt (%GDP)	70.9	63.5	57.8	52.2	46.4	40.4	41.2	47.7	44.4	41.2	38.8	38.8	35.9
Consumer Inflation %	45.0	18.4	9.4	7.7	9.7	8.4	10.1	6.5	6.4	10.4	6.2	7.4	8.2
Unemployment %	10.3	10.5	10.3	10.6	10.2	10.3	11.0	14.0	11.9	9.8	9.2	9.7	9.9

Sources: Central Bank of the Republic of Turkey; TURKSTAT; World Bank

