How Erdoğan Rules Through Crisis

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Note. *This is the pre-publication version. The manuscript is accepted for publication in the* Journal of Democracy (vol. 34, no. 4, 2023). *This version may differ from the final proofread version published in the Journal.*

"Give the power to this brother of yours," President Recep Tayyip Erdoğan told voters in the run-up to the 2018 referendum, and "you will see how to deal with interest rates" and the rest of Turkey's mounting economic woes.[1] The people kept their end of the bargain, voting on 24 June 2018 to change the constitution and empower the executive—paving the way for the hyper-centralized presidentialism of today's Turkey. Yet in the five years that followed, President Erdoğan has delivered the opposite of wealth and prosperity to the Turkish public: The economy has suffered from macroeconomic instability, the rapid depreciation of the national currency, high inflation rates, and the depletion of the Central Bank's net reserves. The ailing economy parallels a crisis of governance in the country, which reached new depths following a devastating earthquake on 6 February 2023 that claimed the lives of more than fifty thousand and exposed the weak institutional capacity of the state.

Despite failing to live up to his promise, Erdoğan once again claimed victory in the latest presidential and parliamentary elections in May 2023. His right-wing Justice and Development Party (AKP) and its partners now constitute a majority in the new parliament. This raises a critical question: How could a leader and a regime that was failing on multiple fronts remain so politically resilient?

It is true that the elections were not fair, and the playing field was highly skewed in favor of the incumbent.[2] The government has strong control over the media landscape, as well as unrestricted access to state resources, which it heavily used on the campaign trail. We also recognize the important role that populist polarization, post-truth politics, and a weak opposition played in paving Erdoğan's road to electoral victory.[3] But a key and often underappreciated source of authoritarian resilience in the Turkish case, we argue, lies in the mutually reinforcing interaction of state and market capture under authoritarian populism. In other words, during its more than two decades in power, and particularly in the wake of its 2011 electoral victory, the AKP government not only established firm control over state institutions but also built an extensive clientelistic network that closely ties different segments of society to the state. As a result, the fallout from Turkey's growing economic and governance crises is not felt evenly across society, which helps to explain the survival of Erdoğan's populist-authoritarian regime.

Playing Favorites

Over the past decade, Turkey has suffered severe democratic backsliding to such an extent that the country is now generally classified as a competitive authoritarian regime with the likes of Hungary and Bangladesh.[4] The regime also has a populist side: Its authoritarianism has grown alongside the rise of majoritarianism and affective polarization as well as the decay of democratic institutions and the rule of law.[5] Like leaders of other competitive authoritarian regimes, Erdoğan (who has led Turkey since 2003) has targeted the bulwarks of a democratic society, packing the courts, coopting business actors, and cracking down on the media and independent society. As president, he has also pursued a foreign policy that seeks to bolster his authoritarian regime at home. For instance, he has used the conflict in the Eastern Mediterranean to boost nationalism and rally support behind his government and negotiated the EU-Turkey migration deal to secure, in addition to financial concessions, European acquiescence to Turkey's worsening human-rights record. In effect, "ruling through crisis" became the predominant strategy for the AKP government: A crisis in one domain is constantly covered up with a crisis in another one. When 33 Turkish soldiers were killed by a Russian air strike in the Syrian province of Idlib in 2020, for example, Erdoğan deflected public attention by igniting a migration crisis with the EU. This *modus operandi* led to an accumulating crisis of governance in political and economic domains, feeding into each other in a path-dependent fashion.

Since 2011, state economic interventionism progressively increased in Turkey. But without strong checks and balances, the government's policies degraded the capacity of the Turkish state. This political decay went hand in hand with deepening economic problems. As the AKP consolidated power, becoming Turkey's "dominant party" with its third consecutive election victory in 2011,[6] Erdoğan grew more confident in using state resources and his authority to secure a loyal coalition of cronies. Nontransparent public-private partnerships, large infrastructure projects, public procurements, and an expanding construction sector became the economic linchpins of his coalition-building strategy.

President Erdoğan has had much more success than previous right-wing governments in building a large winning coalition, comprising a tightly-knit web of business leaders who owe their wealth to the state under AKP rule. His government pursued a two-pronged strategy to closely tie capital holders to the regime. On the one hand, a new conservative class mainly comprising small- and medium-sized enterprises—which were growing in the inner Anatolian cities when the AKP came to power in 2002 —saw their wealth and social status significantly improved. For example, the Independent Industrialists and Businessmen's Association (MÜSİAD), an organization representing Turkey's conservative business actors, has seen its economic influence grow, bringing it from the periphery into the center of politics with the support of the AKP government. MÜSİAD currently represents almost sixty-thousand enterprises. The Association, whose members employ almost two-million people, is known for its close ties with the government.

On the other hand, the AKP government has used a combination of carrots (including subsidies, public procurements, and credit from state banks) and sticks (such as taxes, political pressure, rules, and regulations) to control and co-opt big business. Public-private partnerships have become one of the main tools the Turkish government employs to win the support of key business groups and society at large. According to World Bank data, these partnerships skyrocketed in the 2010s: Of the roughly US$156 billion in public-private partnerships between 1990 and 2022, 74 percent ($115 billion) materialized since 2011.[7] In fact, Turkey has seen more of such investment than all but three countries: Brazil, India, and China.[8] Public-private partnerships have proven instrumental for the government in achieving two critical goals. First, megaprojects—such as hospitals, airports, roads, and bridges—gave the government performance legitimacy in the eyes of the citizenry. Between 2011 and 2022, the government completed projects that included more than $45 billion for airports, $44 billion for electricity, and almost $23 billion for roads. President Erdoğan frequently referred to these huge infrastructure projects to boost his image as a solution-oriented leader who delivers effective public goods. Second, these returns from these projects have helped to create a politically loyal business class.

On the surface, the state shares the risks of undertaking these megaprojects with market actors, which are responsible for undertaking them. But in the Turkish case, the nontransparent nature of the contracts and the politicized process for granting them to firms, along with generous state subsidies and guarantees have turned public-private partnerships into an attractive mechanism for distributing wealth, whereby "the government assumes . . . losses while the private partners siphon profits."[9] In this sense, a process of "market capture" paralleled democratic backsliding in Turkey: Executive authority determines who wins and who loses in the marketplace without destroying the façade of the market economy.[10] These partnerships are concentrated in the hands of a few private firms known for their close ties to the government. For example, five progovernment Turkish firms "ranked within the top sponsors by investment among all low- and middle-income countries in 1990–2018."[11]

Business actors reciprocated by remaining loyal to Erdoğan, no matter what. The most important way for progovernment business groups to return the favor was to invest in the media sector, helping the government to control the information environment. As a result, apart from a few pro-opposition TV channels and low-profile online media platforms, "The eight most popular networks . . . are owned by just five holding companies [whose] owners enjoy strong personal ties with Erdoğan or with the family of his son-in-law."[12]

These holding companies received ample state support for their investments in the media sector or other strategic areas such as energy or construction. For example, Demirören Holding took $800 million from the state bank, Ziraat, to purchase the largest mainstream media group from Doğan Holding. The takeover took place following a long and controversial process that started with a colossal $2.5 billion tax fine imposed on Doğan Holding in 2009, whose media arm had "been the most critical of the government."[13] New progovernment business elites, in turn, played an active role in shaping public debate by marshaling their media power and amplifying progovernment narratives when it comes to key domestic and foreign matters. For example, just before the first round of the presidential election in May 2023, an Erdoğan campaign broadcast was simultaneously livestreamed on eighteen television channels nationwide—a first in Turkish media.[14] As a result, the expansion of the private sector and the emergence of new economic players in the 2000s did not pave the way for business to act as an autonomous actor balancing the state. Instead, these new economic actors grew under the shadow of the regime and remained largely dependent on the state—a reliance that the government exploited to expand patronage networks and manufacture consent.

In the late AKP era, or since 2011, the state's economic role expanded to sustain this dominant political-economic bloc. First, public procurements became another tool the AKP used to tilt the economic playing field toward political favoritism. The public-procurement law, which was reformed according to EU standards in the early 2000s, was amended almost two-hundred times during the AKP's rule to allow the government to more easily politicize the procurement process.[15] The government's step-by-step "market capture" strategy contributed to Turkey's declining economic competitiveness in the 2010s. A recent study, examining all public procurement deals from 2010 to 2019 found:

> The level of competitiveness, measured by the effective number of companies that receive public procurement, has decreased substantively . . . . This decrease in competitiveness was not limited only to the highest level of procurement deals. Across all deciles of procurement deals, competition has decreased, especially after 2013, and this trend has continued since then.[16]

Second, the government established the Turkey Wealth Fund (TWF) in 2016 to manage public assets with an equity value of $33 billion. TWF is different from most other sovereign-wealth funds as it does not rely on significant oil revenues or trade surpluses. Turkey is neither rich in natural resources, nor does it run a large current-account surplus. Instead, TWF is an asset-backed development fund. The Fund, in principle, could be utilized as an important financial vehicle to assist Turkey's long-term development goals by providing public support to investments in strategic sectors that private actors choose to avoid. In practice, its impact is more dubious due to the Fund's vague goals and significant transparency and accountability issues associated with its management. Moreover, the ultimate power over TWF's investment practices rests in the hands of Turkey's president as the Fund's chairman.

Third, the last decade has seen the government limit the authority of independent regulators. Autonomous regulatory institutions were established following the 2001 economic crisis in order to reduce political interventions in the functioning of the markets. Greater independence empowered the Central Bank to pursue a more conventional monetary policy and the Banking Regulation and Supervision Agency to better regulate the banking sector by limiting moral-hazard problems. But the government revoked the independence of regulatory bodies starting in June 2011, further enabling it to reshape the relationship between state and market. Frequent government interventions undermined the policy autonomy of the Central Bank, forcing it to adopt President Erdoğan's highly controversial monetary-policy theory that high interest rates cause inflation. Political pressures on state banks brought back the old habit of extending "bad credits to good friends" as well as distributing cheap loans to consumers and corporations to shore up economic growth.

FIGURE HERE

The AKP government's interventions led to significant institutional erosion and declines in state capacity throughout the 2010s. As the Figure shows, since 2013, Turkey's governance indicators deteriorated in a striking fashion. To quote Hemingway, institutions in Turkey fell in two ways: "gradually, then suddenly." It is therefore hard to identify a specific origin point for Turkey's crisis of economic governance, but the June 2018 referendum, which replaced Turkey's parliamentary system with a presidential one, deserves special mention. Erdoğan claimed that the centralization of political authority in a more powerful presidency would facilitate bureaucratic coordination, reduce red tape, accelerate decisionmaking, and boost economic stability and investments.

What happened was the exact opposite. Amid a diplomatic row with the United States a few months after the referendum, the Turkish lira lost around 30 percent of its value, reflecting market actors' skepticism of the new presidential system and Erdoğan's economic team under the leadership of his son-in-law Berat Albayrak. Institutional erosion, first and foremost, was reflected in the high turnover in key economic posts. Since 2018, for example, five different Central Bank governors, five treasury and finance ministers, and five Turkish Statistical Institute presidents took office.

Rather than revising his economic policy, President Erdoğan insisted on staying the course through the May 2023 elections. In late 2021, the government introduced a set of new policies, which it dubbed Turkey's "new economy model." As the independence of the Central Bank now mostly existed on paper and the autonomy of other key economic institutions was long gone, Erdoğan could experiment with his economic ideas free of major institutional checks and vetoes. A staunch advocate of the unconventional notion that high interest rates drive inflation, Erdoğan pushed the Central Bank to reduce its policy rate from 19 percent in September 2021 to 14 percent that December. Interest rates were further cut to 8.5 percent in early 2023, bringing them far below the inflation rate. As a result, the value of the Turkish lira sharply deteriorated, and inflation skyrocketed.

The dangerous mix of institutional erosion and the disregard of expertise led to the colossal failure of Erdoğan's model. The government was forced to reduce demand for foreign currency by introducing a foreign-exchange time-deposit scheme and to stabilize the exchange rate by selling billions dollars' worth of Central Bank reserves with the goal of stabilizing the exchange rate.

Erdoğan's policy program also failed to alleviate the structural problems of the Turkish economy. Turkey's current-account shortfall persisted, as the country's trade deficit ballooned to an unprecedented $110 billion in 2022. External debt reached record highs and inward foreign direct investments declined to $10.9 billion annually from 2019–2022, almost half of which went to the real-estate sector, rather than to greenfield investments that boost economic productivity and create good jobs. The inflation rate continued its upward surge, reaching 85.5 percent in October 2022, before falling to 44 percent in April 2023, according to official figures. The pressure from the rise of consumer prices was compounded by a massive surge in house prices: The Central Bank's residential-property price index increased to 767.9 in February 2023 from its 2017 base level (100).[17]

An Economic Crisis for Some, But Not All

By the May 2023 elections, the AKP's market-capture practices had made Turkey's perilous economic situation one of stark contradictions. This time, however, Turkey's crisis was "heterodox."[18] In other words, despite the rapid devaluation of the lira and runaway inflation, until now, Turkey had not experienced another "sudden-stop" crisis, which in the past had resulted in mass bankruptcies, skyrocketing unemployment, and collapsing economic growth. In 2023, despite halting productivity, growth figures remained positive, and businesses both big and small—especially those close to the government—managed to weather the storm through cheap credit from state banks, various government subsidies, and public procurements. Firms in most sectors also managed to shift the burden onto wage earners through price increases. As economic growth was considered by both the people and the government as the primary indicator of the AKP's performance legitimacy, state banks were ordered to boost credit expansion in order to keep the economy afloat (at least in the short run). In other words, Turkey's economy was failing for some, but not all, by the time of the 2023 elections.

The government's economic policies had, in effect, produced a significant wealth transfer from labor to capital in recent years. As a share of total economic output (or gross value added), employees' total compensation (labor), declined from its highest point of 36.3 percent in 2016, to its lowest recorded point of 26.5 percent by 2022. Over that same period, the share of capital (or firms' net operating surplus) increased to 54.5 percent from 47.5 percent.[19] The principal losers of this wealth transfer were Turkey's middle classes. Capital holders, by contrast, managed to protect themselves—at least to a certain extent—by raising prices to offset increased production costs. Subsequent interest-rate cuts also helped enterprises to access cheaper credit opportunities, which in turn sustained short-term economic growth and kept the unemployment rate stable. At the same time, however, these rate cuts brought the lira to the brink of collapse, so in December 2021 the government tried to stabilize the currency through a new exchange-rate–protected deposit scheme, which compensated account holders for losses from depreciation of Turkish lira. As of June 2023, the total amount of deposits in the scheme exceeded $120 billion, creating an enormous financial burden for taxpayers in the long run. Yet, in the short run, the scheme protected capital holders and small savings accounts (which are more likely to be held by the AKP's middle class supporters), from the massive fluctuations in the exchange rates.

Erdoğan developed additional countermeasures to protect his support base by stretching state resources to their limits in the run-up to the elections. For example, in December 2022 the government eliminated the retirement age requirement for about 2.2 million people who, as a result, could get a state pension immediately. Furthermore, just days before the elections, he announced that "lower-level government workers would receive a pay boost of 45 percent," which affected about 700,000 public sector employees.[20] These handouts came on top of other well-publicized subsidies: free natural gas for a month, electricity price cuts, and increased social assistance.

The depreciation of the lira and skyrocketing inflation significantly hurt wage earners. But because of the government's selective social policies and election-sensitive wage-increase policies, minimum-wage employees were better protected compared to the well-educated urban middle classes. This reflected a broader trend during the AKP government. For example, between 2002 and 2023, the average civil servant salary increased 21-fold, whereas the net minimum wage increased 46-fold.[21] Hikes in the net minimum wage and middle-class losses took a dramatic turn in 2018 with the advent of the presidential system. In the second quarter of 2023, the net minimum wage increased five-fold compared to three years ago. But the average salary of a university professor, for example, which was 6.6 times the minimum wage in 2014 and 5.7 times in 2018, decreased to 3.9 times by the beginning of 2023 before increasing slightly to 4.2 times by July.[22] Although Erdoğan clearly failed to live up to his promises of prosperity, the effects of his bad economic policy were not felt evenly across social classes. We argue that this disparate impact must be taken into account to fully explain the outcome of the 2023 elections and the continued popularity of the AKP.

Over the years, Erdoğan has built the AKP into a colossal political machine with more than 11.2 million members, dwarfing the second-largest party, the opposition Republican People's Party (CHP), which has only 1.4 million members. Through grassroots networks, the government extensively used state social assistance to keep its support base loyal. According to official figures averaged over the last three years, eighteen-million people—or roughly 5.7 million households—in this country of 85 million received social assistance of some form annually.[23] The government's social-assistance spending more than tripled from 2018 to 2023, increasing from 43 billion lira to nearly 152 billion. Those receiving state aid likely preferred to vote for Erdoğan, because they expect to keep benefiting from state hand-outs as long as he remains in power or fear losing what they currently receive if he is ousted.

The AKP's highly selective responses to Turkey's economic crisis also help to explain the urban-rural divide in the election results. The opposition's presidential candidate, Kemal Kılıçdaroğlu, received more votes than Erdoğan in Turkey's largest cities, whereas the opposite was the case in the rest of the country. In the 25 largest cities, which constitute 73 percent of the Turkish population and 82 percent of the Turkish economy, Kılıçdaroğlu secured 459,000 more votes than Erdoğan; he only won the election with the help of Turkey's other 56 cities composing a mere 18 percent of national GDP. Although it is impossible to assign a precise weight to economic factors in explaining the election's outcome, we do observe that large cities—the home of Turkey's middle-class and well-educated populations, which were more exposed to costs of the AKP's poor economic governance than other classes—favored the opposition.

Erdoğan also capitalized on global and regional power shifts. An advocate of "multipolarity" and a "post-Western international order," he has deepened Turkey's relationships with authoritarian countries, providing his government additional economic breathing room. While maintaining relations with the West, Erdoğan cultivated closer financial, trade, and investment ties with increasingly emboldened autocratic states—such as Russia, China, and Qatar. Before the 2023 elections, the Russian president agreed to defer Turkey's natural gas payments until 2024. Erdoğan also secured $28 billion in swap deals with non-Western countries in recent years, including Qatar, China, and the United Arab Emirates, in order to shore up Turkey's Central Bank reserves.[24] In addition, Azerbaijan, Saudi Arabia, and Libya are reported to have extended billions of dollars in deposits.

Whatever the economic countermeasures of the government, one point is clear: The average Turkish citizen is poorer than five years ago. This concern, however, does not seem to have changed the preferences of Erdoğan supporters in the 2023 elections. This is because President Erdoğan, on top of his monetary responses to the economic crisis, played a weak hand well by winning the narrative debate against Kılıçdaroğlu. Erdoğan employed two complementary tactics in his campaign messaging: blame shifting and agenda shifting. He amplified these tactics by inciting polarization and embracing post-truth politics—feats which were enabled by his tight control over the media landscape.

First, Erdoğan frequently denied the obvious reality that the Turkish economy was in shambles. Although he accepted that there were certain problems, he shifted the blame by pointing out global economic uncertainties. Erdoğan argued that the cost-of-living crisis was a worldwide phenomenon, and his government is the only credible actor that can tackle existing challenges. By constantly underlining the robust growth and employment performance of the Turkish economy, he claimed that "while the global economic crisis shook even the developed countries, we continued to grow."[25] Second, he simultaneously shifted the focus from the economy to a nationalist agenda. He resorted to the standard authoritarian populist discourse in which perceived foreign enemies and their domestic conspirators hold back Turkey's rise in regional and global politics. In this context, the AKP adopted a techno-nationalist discourse as a key part of its election campaign, with proud displays of Bayraktar drones, Turkey's first domestically produced electric car, TOGG, and Turkey's first drone-aircraft carrier, *TCG Anadolu*.

Thanks to state and market capture, Erdoğan was largely successful in glossing over the economic malaise by communicating these narratives to a critical mass of voters. His strong hold over the media meant that the opposition could not get on air while his core arguments regularly reached a wide audience. The nationalist overtones of the campaign also proved a useful vehicle for justifying Erdoğan's full use of state resources, which drew support beyond the core AKP constituency to include a broader nationalist segment of society.

Democracy Wanted

What can the Turkish case reveal about competitive authoritarianism? What are the lessons that we can draw from Erdoğan's resilience to understand the prospects of other authoritarian-populist leaders?

Erdoğan's victory in the May 2023 elections has shown once again that competitive authoritarian leaders are resilient and take elections seriously. They see electoral politics as the main path to power and popular legitimacy.[26] But their success can depend on more than the ways these leaders tilt the political playing field or deploy polarizing populist rhetoric. The resilience of populist authoritarianism is also fed by political economy strategies of state and market capture that can prolong its rule and potentially consolidate it over the long run.

An international environment which increasingly enables authoritarianism could also be significant in paving the way for populist autocrats elsewhere, such as in the emerging middle powers of Mexico, Indonesia, and South Africa, all of which have been experiencing democratic backsliding in the twenty-first century.[27] In a post-Western order, "Western linkage and leverage [have] lost much of their force."[28] Erdoğan's victory is a testament to this trend away from the West in global politics. In the last decade, he has sought to position Turkey as a mediator between

Russia and the West, the gatekeeper of migration at the EU's borders, and an economic and financial hub safe for today's autocrats. In the short run, the continuation of Russia's invasion of Ukraine is likely to, once again, present Erdoğan with opportunities to hedge between multiple international partners to shore up his hold on power.

In an effort to avoid Western pressure to pursue political or economic reform, Turkey under the AKP is likely to further deepen its relationship with Russia, China, and the Gulf countries—and in particular Qatar—to attract the necessary funds for propping up its ailing economy. Hence it came as no surprise when shortly after winning the election, Erdoğan paid an official visit to the Gulf countries in search of more economic support. During this visit, the United Arab Emirates and Turkey signed a series of memoranda of understanding with an estimated amount of $50.7 billion. As part of the package, the Abu Dhabi sovereign wealth fund struck an agreement "to finance up to $8.5 billion of Turkey earthquake relief bonds . . . [and] up to $3 billion in credit facilities to support Turkish exports."[29] Turkey also concluded a defense procurement deal (the biggest in the country's history) to sell Turkish drones to Saudi Arabia. Turkey's Bayraktar TB2 drones, which a firm led by another of Erdoğan's sons-in-law manufactures, have become central to the government's techno-nationalist discourse and one of the country's high-tech exports. It is true that these deals may not materialize, and little is known about them, in large part because state cronies thrive on secrecy. Nonetheless, they demonstrate that the rise of authoritarian states on the international stage is opening new opportunities for Erdoğan's government to pursue deals to shore up the ailing Turkish economy.

That being said, Erdoğan will not completely abandon relations with the West. After months of arduous negotiation, and following the elections, Erdoğan finally approved Sweden's accession to NATO and even made remarks about his desire to see Turkey's long-frozen EU membership talks revitalized.[30] In a similar vein, in a move that suggested a return to more conventional monetary policy, he appointed three deputy governors to the Central Bank who hew closer to economic orthodoxy.[31] All of these actions suggest that Erdoğan is still capable of making policy adjustments without changing the main direction he envisions for the country as strongly anti-Western, populist and authoritarian at home.

But none of these moves are likely to solve Turkey's economic and governance crisis in the long run, which is where the true weakness of the regime lies. Although Erdoğan can attempt to limit how much his supporters pay the cost of his authoritarian populism through such initiatives, the reality of Turkey's diminished economic, eroded state capacity, and ineffective industrial policy remains. As such, the government's insistence on staying the course on its economic policy—which has already led to increasing inequalities, a squeezed middle class, environmental degradation, and widespread social exclusion—is unlikely to bring long-term prosperity.

The best way for Turkey to break out of these recurring economic and governance crises, which under the AKP have only worsened, is through the establishment of robust institutions—however unlikely this is until democratic governance returns. In other words, at the heart of Turkey's economic and political problems is declining institutional capacity and a lack of democracy under Erdoğan—a fact which must be communicated simply and effectively to the Turkish people. Although the opposition failed to do this in the 2023 elections, it remains a necessary task: Otherwise, Erdoğan (and leaders like him) will keep selling false promises of prosperity without accountability.

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