

TÜRKİYE EKONOMİSİNDE 1996 YILI SONRASINDA EKONOMİK BÜYÜME VE SİYASİ İSTİKRAR

Ahmet Salih İKİZ* 

ÖZ

Siyasi istikrar içsel kalkınmanın önemli dinamiklerinden birisidir. Dolayısı ile sürdürülebilir siyasi istikrar ve ekonomik kalkınma ilişkisi pek çok gelişmekte olan ülkede önem arz etmektedir. Bu çalışmada, siyasi istikrar kavramı çeşitli yönlerden açıkladıktan sonra Dünya Bankasının ilgili veri seti ışığında Türkiye’de 1996 yılı sonrasında siyasi istikrar ve ekonomik büyüme ilişkisi tarihsel süreçte tasvir edilecektir.

Anahtar Kelime: *Türkiye ekonomisi, siyasi istikrar, ekonomik büyüme*

POLITICAL STABILITY & ECONOMIC GROWTH IN TURKISH ECONOMY SINCE 1996

ABSTRACT

Political stability is one of the key indicators of indigenous development. So the nexus between sustainable political stability and economic growth is very crucial for almost all of the developing countries. My paper aims to focus on the relations between those variables for Turkish economy. World Bank has been searching the political stability of countries since 1996 by producing data set for different variables in scientific ways. In this study my intention is to provide information about the impact of political stability rankings on Turkish economic growth during a specific time frame.

Keywords: *Political stability, Turkish economy, economic growth*

1.INTRODUCTION

Economic growth is a key element of long term development in all countries. Turkey is classified as developing country by global economic institutions. Political stability is rather complex issue and different definitions and connotations in social sciences. Also it is not easy to measure the level of political stability for different countries in world. China for example is an economic giant but in political terms cannot classified as democratic country. There are several indexes for the measurement of political stability levels of countries. The most well-known is produced by World Bank since 1996. Under the Worldwide Governance Indicators this index measures the perceptions of the likelihood of political

* Dr., Ahmet Salih İkiz, Muğla Sıtkı Koçman University, ahmet@mu.edu.tr

instability and/or politically motivated violence, including terrorism in countries. In appendix the components of that index are given. In this study we aim to compare Turkish political stability index with economic growth level after 1996.

2.BRIEF ECONOMIC HISTORY OF TURKISH ECONOMY SINCE 1996

Following the transformation of Turkish economy into the market derived export promotion model in 1980's, main macroeconomic indicators eventually stabilized compared to pre 1980 period. Deregulation policies, efficient state bureaucracy, liberalization of monetary regime and reorganization and privatization of public enterprises were the main dynamics of new era. The welfare gains of that development related with the policy shift of small and efficient public share in state characterized by Adam Smith's theoretical framework in economic structure (Smith, 2002). The focal point is that, the sustainability of the economic performance in following years was quite weak and 1994 economic crisis has negative impacts in macro level and had political burden on ruling parties. Thus diminishing political power of center right parties with their similar ineffective economic policies created a vacuum for small and minor political movements and parties in Turkey. One of the main reason for political turmoil and leaking from central parties is that the real wage earnings of labor in 1980's during the democratically elected governments deleted by increasing informal employment and high inflation rate after 1994 economic crises (Taymaz and Özçelik, 2013). The policy preference for macroeconomic instability by coalition governments interrupted by semi autocratic military intervention which in turn had negative corollary on economic stability in country where inflationary spiral had negative adverse effects on public finance. Even though coalition government attempted to cure that macroeconomic stability, their efforts had little impact on currency crisis related to weak asset management problem of banking sector. The impacts of heavily financed budget deficits with government spending did not have Keynesian impacts on monetary base and economic growth (Keynes, 2012). Thus positive shift in public spending with increasing money supply did not crate increase in economic growth but rather a high inflation level. The high correlation between inflation and overnight interest rates with high PSBR (Public Sector Borrowing Rate) misleadingly distorted main functions of banking sector by diverting funds from private sector to Treasury bonds. Implications of high public debt share created a huge public finance deficit which was not easy to burden for governments. Although high interest rates overwhelmingly cure high current account deficits with short term capital inflow from abroad, that has serious side effects during the pre-crisis period by deepening the economic fragility. Instable macroeconomic indicators such as high inflation, budget deficit and current account deficit accompanied by weak coalition governments created poor political environment to take certain correct macroeconomic measures. The functional income distribution deteriorated against labor sector due to growth of shadow economy.

The main observation from the viewpoint of social scientist during the era that military interventions from 1980's had little impact on the solution of socioeconomic problems as aimed. The 2001 economic crises were the final outcome and snowball of previous bottlenecks in banking sector and impediments from low exchange rate and high interest rate policy. Immediate short term capital outflow from banking sector much more deteriorated current account deficit. The changing nature in economic infrastructure had radical reflections on political superstructure with eroded mainstream political parties. The destabilization in economic indicators increased public unrest. As in previous economic crisis IMF polices became the last resort for ruling coalition government. Austerity measures of public sector expenditures reduction, monetary base limitation for central bank reserves and increase in taxation were main solutions for a shift in total demand function. The share of indirect taxation has increased by new tax bases.

That all ended with new paradigm in Turkish economy after 2002 where radical privatization policies with strong monitoring and supervision of banking system were building blocks with majority voted governments with same political party. The macroeconomic indicators such as budget deficit, public debt, inflation reached Maastricht criteria. While inflation level had sharply declined to single digit figures, fiscal discipline achieved by tight economic measures. In a decade Turkish GDP has more than doubled with strong economic growth performance. It is very obvious macroeconomic indicators have positive momentum after 2002 but meantime restricted by middle income trap where economic growth cannot pass certain threshold.

3.THE DEFINIION OF POLITICAL STABILITY

Until early 20'th AD the term stability was not widely used for nonwestern countries. The center and periphery approach of Wallerstein argues that socioeconomic stability meaningful for western European countries on the center of geopolitics (Wallerstein,2010). The term political stability and good governance become widely used after 1990's where a group of economists searched for the dynamics of sustainable, high economic growth for developed world in order to reach welfare state levels.

Stability has different meanings for every human science. In earth sciences like in physics stability rather related with diminish of energy momentum of a resource and energy damping. In social sciences stability is much more related with declining volatility of a given variable. For example, exchange rates become more stable when they do have less frequency in certain band of variables.

The term political stability for a specific country has not exact definition but contains following connotations.

- a. Absence of violence in territorial borders in specified country, which means the region, has lack of terror and public unrest, weak criminal activities.
- b. The endurance and duration of governments, longevity of ruling governments which means less propensity of turnover in government change in high random.
- c. Less likelihood of disrupt in constitutional order without democratic forces, military coups and interventions.
- d. Probability of structural regime change in country with macroeconomic indicators and other drivers such as disintegration of USSR.
- e. Somehow there would be societal change which is unexpected due to the socioeconomic change in society.

Most of the definitions of political stability covers one of those arguments for the explanation. In following part, we do provide brief description of political stability under the universal values.

In very basic terms political stability is fewer propensities to change in executive governance either in constitutional or unconstitutional means. Since the terminology for political stability has complex definition, the statistical calculation is not easy to measure. There are some international agencies and organizations producing information with the observation of certain tendencies and indicators. One of the most prominent indexes is Worldwide Governance Indicators of Worldbank. Political Stability is measured mainly governance indicators of Worldbank since 1996. In general terms a country where it has predictable decision making process with expected outcomes is categorized as politically stable. In historical context if a country has few violent unrests and low governmental longevity against any interruptions is stable. In political science theory citizen's involvement in governance and execution makes country much more stable in democratic governance. Rawls argued that "by securing an agreement that can accommodate a wide diversity of competing and incommensurable religious, moral, and philosophical views, a political conception of justice and stability achieved" (Rawls,1993). In today's multicultural societies the success of binding agreement between those groups strength political stability. Countries with well-functioning parliamentary regime have tendency to become much more stable. In some cases, coalitions addressed as one of the sources of political instability since they are effecting longevity of governments. The life of coalitions may longer with political parties from similar ideologies. The empirical study from western world shows that ideological discrepancies of different parties in coalition harm the power and life of governments (Carmignani, 2002).

In public administration theory political stability is measured by the endurance and strength of executive power in ruling. As long as maintain the self-sufficiency of policies in ruling, the country administration considered as stable. In democratic regimes all segments of society must represented in

government so that may create discrete policies in bureaucracy in order to catch the political expectations of all stakeholders.

Absence of violence in daily life is main crucial element of stability. This definition has a weakness in the rule of law and public participation. There are countries with very little unrest, almost no violence but has very strict undemocratic regimes (Shepherd, 2012). Thus the term stability may have restricted to nonviolent political environment with limited public participation. Indeed, these countries may be categorized as stable since few violence and unrest such as North Korea but will be antidemocratic regimes.

From the viewpoint of economists' political stability is achievement of good record in macroeconomic variables such as inflation level, budget deficit, balance of payments, employment level and economic growth. As long as ruling governments have a strong performance and good records on those variables country is classified as stable. In fact, having a good performance in all those variables would not be politically correct due to take certain unfavorable measures for certain citizen's wealth. Governments tend to solve those problems with short term measures what we call myopia due to political restriction for coming elections. Thus short termism in decision making process may create political instability in long term. In long term, economic stability interconnected with political stability, ie. those countries with good macroeconomic indicators are also politically stable. Some economic variables play a crucial role in stability. For example, if democratically elected governments do not manage to solve high unemployment problem, there will be high public unrest with a threat for democratic regimes. Very recent example is that Arab spring has driven from very unfair income distribution and poor economic performance with high unemployment level in those countries.

There are internal and external factors effecting political stability. Permanent violence and weak rule of law endangers political stability. The existence of undemocratic interruption to democratically elected regimes is also the main concern for instability. Factors such as military coups, serious terrorist activities and dictatorial regimes are main examples of internal determinants.

International conflicts, border problems with neighbors and wars are main external factors effecting political stability. These all are originated from policies of foreign world and unless otherwise home country fails to eliminate those risk factors, increase countries' fragility. Especially in multicultural and multiethnic societies those factors would be initiator of internal conflicts.

The political stability in western countries becomes a measure issue after 2008 economic crisis. The wealth and income distribution are much more unfair compared to post second world war years (Piketti,2014). Those factors are accompanied with high youth unemployment and migration ghettos in

western cities. The weak integration of migrants to those western countries is main derive behind those violent activities in western cities.

4.ECONOMIC GROWTH AND POLITICAL STABILITY

The political aspects of economics were not the main issue during the empire age till 19'th Century. The establishment of nation states after Westphalia order improved cohesion between nation state and national economic policies (Hobsbawn, 2000). That created close locus for political economy in every individual state. Increasing imperialism, monetary regimes for public expenditures in nation states highlighted economic issues in those countries.

Politics and economics have content relation with each other since they both use human behavior in the center of their search. The main difference between those social sciences lies in the conceptualization of rationalism. Economists assume that human behavior is rational in all of their decisions whereas politics may contain irrational behaviors in decision making process and may depart from rationality in governance (Savař, 2008). For example, in order to get reelected in following electoral, short term gains preferred in public finance in spite of long term budget imbalances.

The welfare change of countries is measured with some practical tools in economics. The main demonstrator of that is economic growth. Living standards and conditions of residences are directly related with positive economic growth. Todays developed countries has good economic growth performance in historical process. Although there are numerous number of indicators of economic development and growth, savings accumulation and technological progress are the main derives of economic growth (Blanchard, 2013). Savings and technological progress are the main denominators of investment level, which plays a crucial role in economic development by multiplier effect in Keynesian terms. (Özgüven, 1992.) So the higher the investment level the higher the potential economic growth in a given state. Countries with high growth rate records are also providing welfare gains to their citizens which are one of the key factors for low public unrest.

Economic growth generally defined as a percentage change in real GDP in a specific time period generally in a year. In every year gross domestic product calculated and converted to real terms in order to get rid of inflationary effects. Afterwards it is compared with previous years by considering population increase. Economic growth is one of the key factors in evaluation of countries economic performance in both historic trends and cross country comparison.

The political stability and economic growth are related with each other in a sense that developed countries are much more politically stable. Governance broadly as the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected,

monitored and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them (Kaufmann, 2009). Global Business Index and Global Competitiveness Index of countries clearly has background of good governance and political stability.

The main data set for political stability is subsection in World Bank Governance Indicators as follows: Voice and Accountability, Political Stability and Absence of Violence/Terrorism, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption. In those statistics political stability capturing perceptions of the likelihood that the government will be destabilized or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism (Worldbank, 2015).

In case of high propensity to change governments and weak rulers in providing stable economic policies there will implications of capital outflow abroad either by investment or savings accounts in foreign banks. The final outcome of outward financial flow reveals weak production and labor market deficiencies. In democratically elected governments policy makers influenced by different interest groups, lobbies and will be reluctant to follow proper fiscal and economic policies which may in turn create harmful effects on economic growth. Somehow longevity of governments does not always harm political stability since there will be expectations that new governments would unfollow corrupt and improper policies of former governments.

Another argument for political stability is that democratic governments with unique institutions are harmful to economic growth. In order to maintain power, ruling governments will be redundant to follow certain policies which would have adverse effects on long term economic growth. That argument is mutually exclusive that dictators more involved in rent seeking activities due to lack of democratic regimes' participants. Thus economic growth was hampered as in the case of most Arab nations.

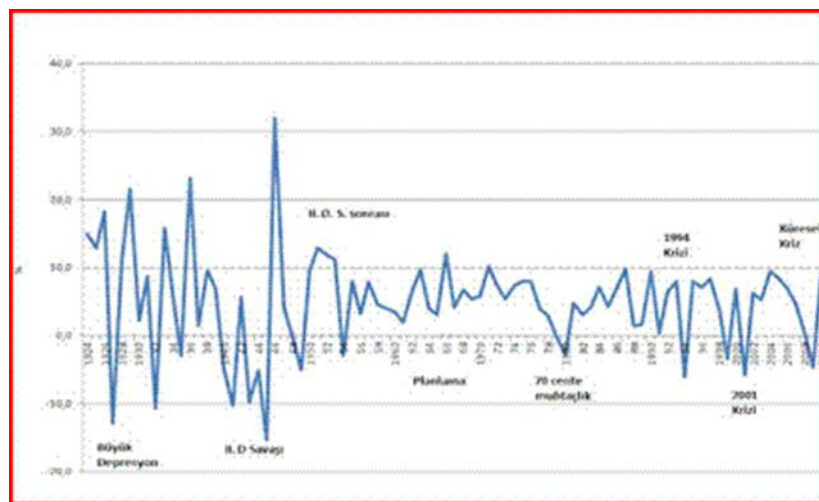
Last wave of globalization after 1980's increased international financial movements from developed world to developing countries. Short term capital movements among those countries increased vulnerability of host countries by current account deficits. So globalization has serious impacts on political stability in developing world. Countries with modest income distribution have few damages during this movement. As long as countries have democratic regimes in global world with the absence of minority dominated markets they become more politically stable (Pin, 2008). There is very strong relation with FDI (Foreign Direct Investment) level and political stability. Volatility in economic and social indicators thus negatively affects political stability in certain country. In cross country analyses Pin revealed that proposition. Politically stable countries are much more attractive for international investors.

The political stability and economic growth are mutually exclusive so weak economic growth may cause political instability in different forms. Decrease in welfare due to weak growth, poor economic performance and instable macroeconomic indicators such as high inflation and budget deficits, acute unemployment especially in youth would harm political stability if governments are reluctant to take certain measures. Not always political instability hampers economic growth but also vice versa. The causality within economic growth and political stability is not in particular direction that both may affect each other in a period of time. The western developed countries with democratic regimes has tendency to politically stable and have sustainable economic growth whereas developing countries has different pattern that political stability would not guarantee sound economic growth performance.

5.POLITICAL STABILITY & ECONOMIC GROWTH IN TURKEY

Turkish growth story since the foundation of Republic in 1923 was approximately in the band of 5%. Following graph has detailed information about the economic growth history for Turkish economy from the foundation of Turkish Republic.

Graph 1. Economic Growth for Turkish Economy Since 1923 (%)

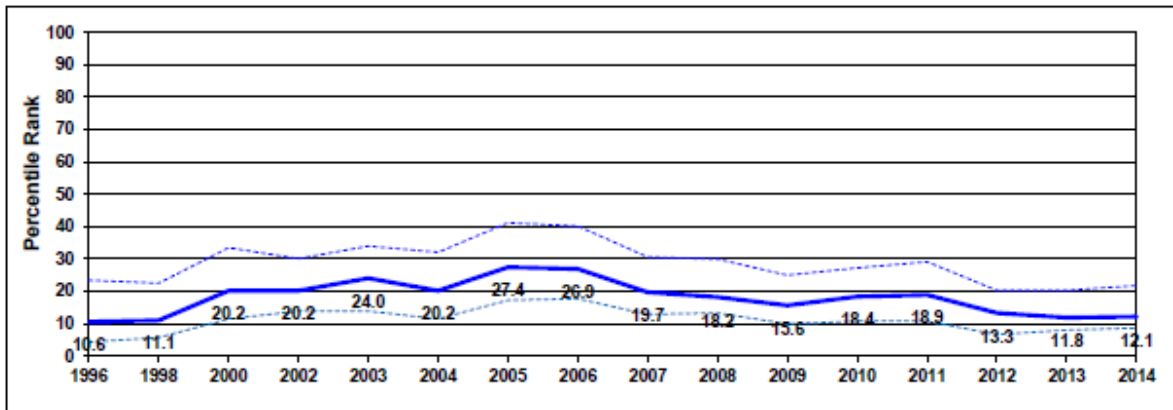


Source: Mahfi Eğilmez, 2018

After 1994 economic crisis strong performance of economy brought around 6% increases in GDP level till 2001 economic crisis. The base effect after 1994 economic crisis is the main derive for growth rate. Meantime the political stability gradually improved due to declining terrorist activities in

southeastern part of Turkey as seen in following line graph. After 1996 Turkish political stability gradually improved due to the miscellaneous factors. In year 2005 it peaked in whole time frame. Following year 2006 even if our country has long term durable single party governments lost its momentum in political stability. Average growth rate between years 1996-2005 was 4.4% which is slightly higher compared to 2005-2014 with 3.8%. It simply explains one of the key factors of political instability after 2005.

Graph 2. Political Stability for Turkey



Source WGI Turkey Report 2015, See appendix for details.

The evaluation of Graph 2 reveals that there is an increasing trend for Turkish political stability after 1996. The percentage ranking peaked in 2005 and smoothly declined afterwards. Thus even if country has sustainable average growth rate around %5 after 2005 according to datum there is decline in political stability in following years. In different token it can also interpreted that Turkish growth is rather impartial to political stability in recent years.

The economic performance during that period was not quite robust for sustainability due to poor performance of banking sector and lack of state monitoring. The outcome of strong exchange rate, high interest rate policy created another economic crisis in 2001. As indicated in first part of the study this turmoil broke out a new political movement with new and different perspectives supporting post expectations of Makavoskiy. In his book he argued that Turkey will be in new world and dimensions after millennium by using its economic potential with border countries (Makavoskiy,2002). The Islamic conservative political movements had deep historic roots from 1950's. Nationalist opinions in state diverted from ethnic Turkish ties to Islamic ties after 1950's that borne some military interventions (Karpas,2010).

Following a sharp decline in economic growth new government fulfilled to reach more than 6% annual growth rate due to base effect and mass privatization policies till 2008 world economic crisis.

AK Party's structural economic policies and fiscal discipline are post 2001 crisis period IMF prescriptions. In first period till 2008 very successful economic growth performance attained (Pamuk, 2014). It is very obvious that post 2010 period has modest economic performance. The political stability peaked with the help of strong economic performance with little public unrest. The AK party's success till 2009 was also highly related with improvement in international trade in global area. Its economic policies after 2002 are much more liberal compared to its former conservative roots (Buğra,2015).

Although there were few empirical analyses on economic growth and democracy some studies have evidence. The political stability, economic growth and democratic governance have positive correlation in long term for Turkish economy (Bilecen, 2012). That is basically show simple nexus for those variables.

After 2009 global economic crisis Turkish economy has declining economic growth performance due to declining exports, falling Arab states and declining innovative production. The industrial production was not creating excess employment for labor. Around 4% growth rate does not create robust labor demand to cure increased unemployment level. After 2011 EU Turkey relations drastically disharmonized because of the reluctance in both parts. Even if EU is the main trading partner of Turkey, it was busy with own problems such as sluggish economic growth, increasing unemployment and migrant and refugee problems. Turkey experienced a location of geographical bumper state after falling regimes of Iraq and Syria with millions of migrants in own lands. Those factors created unsafe environment and reduced political stability of country in following years.

Despite the global financial crisis, Turkey's economic performance has been above average. To sustain this positive development in the mid- and long-term, the government should refrain from short-term deficit spending (Karadağ, 2015). Although popular, such policies weaken Turkey's international competitiveness. Long term expectations for political stability and economic growth is much depends on policies of government engaged in central bank independence, improvement in education system and increase in legal protection. Turkey is the only Muslim country with well-functioning democracy with liberal economy. If country do cope to solve those problems it would be new South Korea in world as rising star of region (Bipartisan Policy Center, 2015).

6.CONCLUSION

In this study we aim to provide brief knowledge about political stability and economic growth relations for Turkish economy since 1996. Compared to globe, Turkey has somehow immunity to the economic crisis and reached high growth rate during the post crisis periods. Besides 2001 economic crisis the political impacts of sharp decline in economic growth has few impacts in political arena.

Increasing impartiality of political stability to economic growth for Turkish economy than creates less vulnerability to external shocks in home.

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APPENDIX

Individual Indicators used to construct Political Stability and Absence of Violence

EIU Economist Intelligence Unit <http://www.eiu.com>

GCS World Economic Forum Global Competitiveness Survey

<http://www.weforum.org>

HUM CIRI Human Rights Database & Political Terror Scale

<http://www.humanrightsdata.com>

IJT iJET Country Security Risk Ratings <https://worldcue.ijet.com/tic/login.jsp>

IPD Institutional Profiles Database <http://www.cepii.fr/>

PRS Political Risk Services International Country Risk Guide

<http://www.prsgroup.com>

WCY IMD World Competitiveness Yearbook <http://www.imd.ch>

WJP World Justice Project <http://www.worldjusticeproject.org>.

WMO IHS Global Insight Country Risk Rating

<http://www.globalinsight.com>