

Relationship Between Political Instability And Misery: A Structural Var (Svar) Analysis

(Research Article)

Politik İstikrarsızlık ve Sefalet İlişkisi: Bir Yapısal Var (Svar) Analizi

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Hilal ŞEKER¹,

¹ Dr. Öğr. Üyesi, Amasya Üniversitesi, hilal.seker@amasya.edu.tr, Orcid No:0000-0001-6188-1006

ABSTRACT

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Political instabilities increase fragility of economies and tarnish country welfare by decreasing their economic growth because they cause economic uncertainties. The objective of the present study was to reveal the effect of political stability on public welfare for Turkish economy. To that end, the relationships between political instability and misery index was investigated through the Structural VAR (SVAR) model for the Turkish economy for the period covering 2002-2022. The findings reveal statistically significant and positive relationships between political stability and misery index in the long run. For the period under analysis, it can be interpreted that the increase in political stability alone is not sufficient to reduce the welfare level of the people. On the other hand, positive and statistically significant relationships are found between the misery index and growth. This finding can be interpreted as the economic growth in the period in question did not lead to an increase in welfare.

ÖZET

Anahtar Kelimeler:
Sefalet Endeksi,
SVAR,
Politik İstikrarsızlık
Endeksi

Politik istikrarsızlıklar, ekonomik belirsizliklere neden olabileceğinden ekonomilerin kırılganlık seviyelerini artırmakta ve ülkelerin ekonomik büyümelerini olumsuz etkileyerek refah düzeyini düşürebilmektedir. Bu çalışmanın amacı Türkiye ekonomisinde politik istikrarsızlığın halkın refahı üzerindeki etkisini ortaya koymaktır. Bu amaç doğrultusunda Türkiye ekonomisi için 2002-2022 dönemi arasında politik istikrarsızlık ve sefalet endeksi arasındaki ilişkiler Yapısal VAR (SVAR) modeli ile araştırılmıştır. Elde edilen bulgular uzun dönemde politik istikrar ve sefalet endeksi arasında istatistiki açıdan anlamlı ve pozitif ilişkiler ortaya koymaktadır. Analize esas dönem için politik istikrardaki artışın halkın refah düzeyini tek başına artırmakta yeterli olmadığı şeklinde yorumlanabilir. Öte yandan, sefalet endeksi ve büyüme arasında pozitif ve istatistiki olarak anlamlı ilişkiler bulgulanmıştır. Bu bulgu ise söz konusu dönemde yaşanan iktisadi büyümenin refah artışına yol açmadığı şeklinde yorumlanabilir.

1. INTRODUCTION

For the economies lacking political stability, it could be inferred that macroeconomic instabilities could arise, capital inflows and direct investments could decrease, various adverse consequences could emerge such as inflation and unemployment. Both theoretical and empirical literature suggest that political instability could deteriorate macroeconomic indicators. In the great majority of current literature, it is underlined that especially political instabilities have an adverse effect on decisions of economic actors on investment and savings. As political lives of governments decrease, they alter policies more frequently; and this increases uncertainty, which accordingly results in negative impact on decision making processes of economic actors.

Especially in the developing economies, political instabilities cause capital outflows which eventually decrease foreign exchange reserves, devaluation of sovereign currency and further increase fragility of such economies. Recovering such instability status and to restore a confidence in economy would be costly and time-consuming process (Demirgil, 2011, p.128).

In the political economy literature, definitions of political instability are based on two main approaches. The first focuses on changes in power, while the second emphasises social unrest and political violence.

Alesina and Perotti (1994) attribute political instability to changes in power, social unrest and political violence. There are also approaches in the economic literature that attribute political instability to changes in economic policies. Most commonly, political instability is associated with frequent changes in government. For example, Lipset (1959) explains the stability of the political system by the fact that it continues unchanged for a long time. There are also studies such as Barro (1991), where political instability is taken as social unrest and political violence.

Political instability is measured in two ways. It is measured by an index obtained with indicators including events such as political demonstrations, protests, coups, riots or by the 'Administrative Turnover Rate Approach' based on the frequency of government overthrow (Kalay & Çetin, 2016, p. 2180).

Political stability is described as “*sustaining institutions of political system without incurring an immediate change*” (Tosun & Tosun, 1999, p. 14). Political instability index (PII) measures perceptions toward probabilities of government fall or lose their operative capacity (Yalçınkaya & Kaya, 2017, p. 283). Furthermore, it measures destabilization probability of governments through non-constitutional means such as domestic violence and terror, probability of shift in government and persistence of ongoing policies. PII varies between -2.5 and +2.5 (Baklouti & Boujelbene, 2018, p. 8-9); as the index approaches toward +2.5, this suggests decreasing political instability and vice versa.

Indeed, Turkish economy is the one in which political conflicts and controversies arise frequently. Chart 1 exhibits the survey of political instability index in Türkiye for the period of 2002-2022.

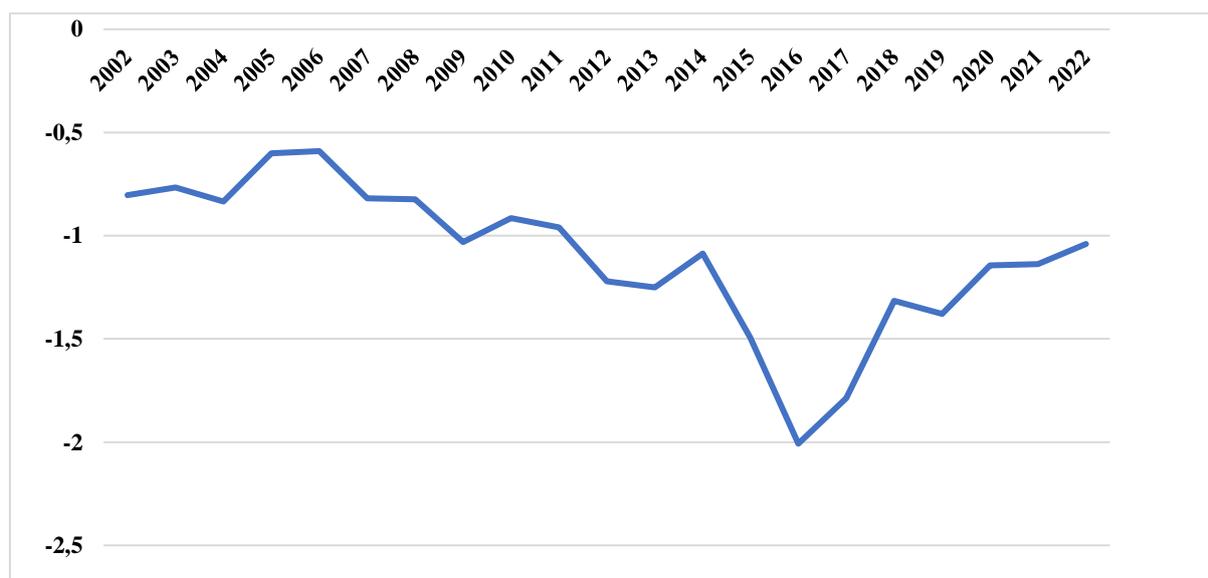


Chart 1. Political instability index in Turkish economy for 2002-2022

Source: Created by the author using World Bank data.

According to Chart 1, it could be seen that PII sustained around -2.5 in general. The lowest political stability value was measured as -2.01 on July 15th, 2016 whereas the highest index value was measured as -0.59 in 2006. However,

after 2006, it was seen that index value continued to decrease and accordingly political instability increased. As of 2022 period, the index value was found to be -1.03.

One of the most important requirements of economic stability is political stability, which brings along concepts such as strong legal and political structure, democracy and economic freedom. Therefore, political instability can negatively affect the country's economy through many macroeconomic variables. Ramadan et al. (2016) argue that the environment of uncertainty and risk created by political instability will negatively affect investments and thus the necessary economic environment for growth will not be created. On the other hand, Corovei and Socol (2019) state that economies where social unrest and conflicts are experienced will not be preferred by foreign capital.

Political instability also affects macroeconomic variables such as inflation and unemployment. The environment of risk and uncertainty that will occur in case of political instability will lead to an increase in inflationary expectations, shorten the borrowing maturity and increase costs. The main motivation of the study is to reveal the effect of political instability on the welfare level of the people. The misery index is one of the main variables used to measure the social and economic welfare level of an economy and is used in this study to represent the welfare level.

In 1970, Arthur Okun developed an index consisting of totals of inflation and unemployment rates. Even though this index was referred as “Economic Discomfort Index” in the beginning, then, it became known in the literature as Okun’s Misery Index estimated as totals of inflation and unemployment rates (Cohen, 2014, p. 1-2). In 1999, Robert Barro suggested new index by adding GDP growth and long term interest rates to Okun’s index (Al and Yıldız, 2019, p. 305), which is referred as Barro Misery Index (BMI) in the literature. BMI relies on the opinion that increases in the long term interest, unemployment and inflation rates increase misery among society whereas the increase in growth rate decreases misery and vice versa. Barro suggests the Misery Index in the form of *Equation 1* below (Lechman, 2009, p. 2);

$$\text{BMI} = (\text{Inflation rate} + \text{Unemployment rate} + \text{Long term interest rate}) - \text{GDP} \quad (1)$$

In 2011, Steve Hanke (2015), revised BMI once again and employed increase in per capita real GDP (PCGDP) instead of economic growth rate. After this index started to be referred as Hanke Misery Index (HAMI) shown as *Equation 2* below;

$$\text{HAMI} = (\text{Unemployment rate} + \text{Inflation rate} + \text{Interest rate}) - \text{PCGDP} \quad (2)$$

Misery index (MI) is one of the prominent indicators which measures countries’ economic welfare levels, which could be utilized to develop policies to resolve socioeconomic problems of countries such as poverty, unemployment, education and health. Moreover, this is regarded as a substantial variable that could be utilized as reliable data by governments and civil society organizations in fight against poverty.

In this regard, the objective of the present study was to investigate the relationships between political instability index and misery index through Structural VAR (SVAR) model. To that end, our analysis period was determined as 2002-2022 during which regular political instability index data could be accessed. Our study progressed as follows; the second section included literature review; third section introduced data set and empirical analysis; and the final fourth section exhibited findings and results.

In the relevant literature, there are numbers of studies investigating macroeconomic variables especially political instability index and economic growth. Similarly, studies orient on misery index mostly focus on different variables such as economic growth, foreign exchange rates, inflation, direct investments. To the best of author’s knowledge, number of studies investigating the direct relationship between political instability and misery index is quite scarce. In this sense, our study was considered to have significant contribution to relevant literature.

2. LITERATURE REVIEW

Even though there is quite a limited number of study investigating the direct relationship between misery index and political instability in the literature, there are numerous ones studying the relationships between misery index, political instability index and various other macroeconomic indicators. Table 1 summarizes these studies in terms of their period, country and method.

Table 1. Summary of Literature

Author	Country	Findings
Alesina <i>et al.</i> , (1996)	113 Countries; 1950-1982	High political instability corresponds with low economic growth rate.
GyimahBrempong & Traynor, (1999)	Sub-Saharan Africa Countries (39), 1975-1988	Positive relationship is reported between political instability and economic growth.
Fielding, (2003)	Israel, 1987-1998	It is concluded that political instability has negative effect on investments.

Şanlısoy and Kök, (2010)	39 Median-Income and Low-Income Countries; 1985-2014	It is determined that when political instability cross a certain threshold, economic growth decrease; and when instability decrease growth shows certain increments.
Arslan, (2011)	Türkiye; 1987-2007	One-way causality is reported from GDP to political instability.
Grabia, 2011	EU countries, 2005-2009	Okun Index is estimated for the EU countries and compared with per capita GDP. Whereas Holland, UK., Luxemburg, Austria, Sweden and Denmark are found to have highest index values, Romania, Slovakia, Bulgaria, Lithuania, Hungary, Poland, Latvia, and Estonia have the lowest values.
Aisen & Veiga, (2011)	169 Countries; 1960-2004	It is determined that political instability causes low growth rates.
Demirgil, (2011)	Türkiye; 1970-2006	Political instability has negative effect on economic growth whereas positive on inflation. But its effect is not significant on foreign exchange rates.
Khan & Akbar, (2013)	94 Countries, 1986-2009	A negative relationship is found between political risk and direct foreign investments (DFI).
Tang & Abosedra, (2014)	Middle Eastern and North African Countries, 2001-2009	It is reported that political instability has negative effect on economic growth.
Cangir and Turan, (2014)	Türkiye; 1955-2012	Government instability is found to have significant and negative effect on budget balance. A similar result is also found with political instability index.
Balan, (2016)	Türkiye, 1986-2013	It is reported that political stability could explain 8% of the change in government expenditures whereas government expenditures could explain 13% of change in political stability.
Özcan, 2016	Türkiye and EU; 2003-2013	Studies whether misery index could be used in measurement of poverty; and suggests utility of Okun's Misery Index in this measurement.
Kalay & Çetin, (2016)	52 African Countries, 2000-2011	One-way causality is determined from growth to political instability.
Şanlısoy & Çetin, (2017)	Türkiye; 1984-2015	One-way causality is determined from political instability to economic growth.
Diken <i>et al.</i> , (2018)	Türkiye, 2002- 2016	A long term correlation is reported between political stability and economic growth; but this relationship is not statistically significant on the short term.
Dadgar & Nazari (2018)	Iran; 1974-2011	Negative relationships were found between economic growth and misery index.
Wang at all (2019)	Pakistan; 1989-2017	Negative relationships were found between economic growth and misery index.
Kamacı A., (2019)	20 OECD Countries; 2003-2017	A unit increase in political instability is found to decrease GDP by 1.784 unit on the long term; and increase economic growth by 5.244 on the short term.
Bişen (2020)	2002-2017, Brazil, China, South Africa, India, Russia and Türkiye	The study proved that political stability, although necessary, is not a sufficient factor in economic growth.
Şanlısoy (2020)	Türkiye; 1987-2015	It is found that positive shocks in economic growth create positive shocks on political instability.
Akay and Oskonbaeva, 2020	16 Developing Countries; 1996-2017	The relationship between economic growth and misery index is investigated by using ARDL; an increase in misery index is reported to have negative effect on economic growth.
Ünal, 2020	Türkiye; 1985-2017	The effect of direct foreign investments (DFI) on Barro Misery index is investigated through SVAR model; and reported that DFIs, GDP ratio, foreign exchange shocks have negative effect on BMI.
Azam (2022)	2002Q1-2018Q4, 14 Ülke	The study found that political instability is associated with economic growth.
Kasap, (2023)	Fragile Five; 2006-2021	The relationship of HMI with various selected social and demographical indicators is investigated; a positive correlation is reported between HMI and health expenditures whereas short-term insignificant correlation is reported between HMI and infant mortality and suicide rates. No correlation is found between HMI death rate and population growth.
Aydınbaş g.(2023)	MIST ve BRICS; 2002-2021	It is found that there is a bidirectional causality relationship between political stability index, trade openness rate, employment rate and GDP per capita.

3. ECONOMETRIC ANALYSIS: SVAR ANALYSIS

3.1. Data Set and Model

In the present study, Structural VAR (SVAR) analysis was conducted on the annual data from the period of 2002-2022. Our model included variables of Misery Index (Hanke), Political Stability Index and Growth Rate. Table 2 exhibits the descriptions of our variables below. Hanke index is calculated by subtracting GDP per capita from the sum of inflation rate, unemployment rate and interest rate.

Table 2. Descriptions of Variables

Variables	Symbol	Data Set	Resource
Misery Index	MI	(InflationRate+Unemployment Rate+Deposit Interest Rate)-Capita GDP %	World Bank
Political Stability	PSI	Political Stability / Lack of Violence Terrorism Index	World Bank
Growth Rate	Y	Per Capita GDP %	World Bank

Chart 2 displays time series of the concerned variables. As reflected by these charts, fragile characteristic of Turkish economy could be seen apparently. In order to avoid serial correlation, all variables except growth rate were included in the analysis in logarithmic form.

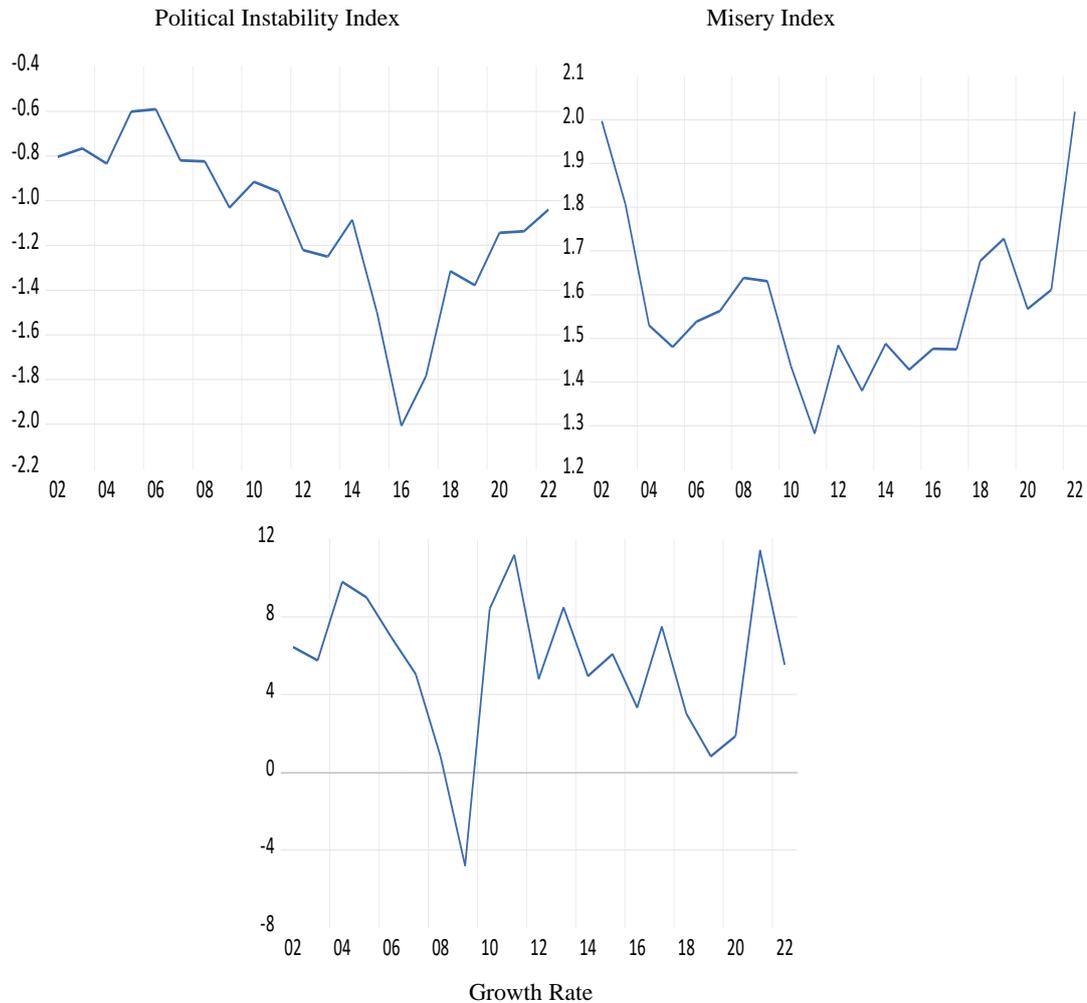


Chart 2. Variables Charts

Structural VAR (SVAR) analysis is an analysis based on the classical VAR model. The constraints that cannot be placed on the variables in the classical VAR analysis are eliminated by Structural VAR (SVAR) analysis. The Structural VAR model is a more comprehensive model and is preferred in the study to determine the effect of these shocks. In addition, the effects of structural shocks such as economic crises and unexpected policy changes cannot be identified in the classical VAR model. In the structural VAR model, structural changes are taken into account and both short and long term constraints can be imposed (Narayan et al, 2008, 2707).

$$Y_t = AY_{t-1} + \dots + A_p Y_{t-p} + \Psi D_t + \mu_t \tag{3}$$

In the equation, p is the optimal lag length, Y is the endogenous variable matrix of size nx1, μ is the residuals matrix of size nx1, Dt is the deterministic combination and the SVAR model can be written as follows:

$$AY_t = A_t^* Y_{t-1} + \dots + A_p^* Y_{t-p} + B\epsilon_t \tag{4}$$

Matrix A is used in the instantaneous modelling and matrix B represents the structural formation parameters. Constraints are applied to the shocks and $B\epsilon_t$ is multiplied by A-1 and the residuals vector;

$$\mu_t = A^{-1} B \varepsilon_t \quad (5)$$

$$\mu_t A = B \varepsilon_t \quad (6)$$

In the study, the target matrix of the variables used in the model was created.

$$\begin{bmatrix} PSI \\ Y \\ MI \end{bmatrix} = C(L) \begin{bmatrix} \varepsilon & PSI \\ \varepsilon & Y \\ \varepsilon & MI \end{bmatrix} \quad (7)$$

If the matrix should be expressed in more clearly;

$$\begin{bmatrix} PSI \\ Y \\ MI \end{bmatrix} = \begin{bmatrix} C1 & 0 & 0 \\ C2 & C4 & 0 \\ C3 & C5 & C6 \end{bmatrix} * \begin{bmatrix} \varepsilon & PSI \\ \varepsilon & Y \\ \varepsilon & MI \end{bmatrix} \quad (8)$$

In our study, the target matrix was structured first. PSI variable was included in the first row of this matrix; and it was assumed that it was not affected by all other variables. Y variable was included in the second row; Y is affected by both self-shock and the shock of PSI variable. The row included MI variable and affected by the shocks of all variables included in the model.

3.2. Findings

In the time series analyses, stationarity of series is substantially important. Before the analysis, it is necessary to determine whether series are contained unit root by conducting tests. To that end, ADF test, one of conventional unit root tests and LM Structural break unit root test, one of the structural break unit root tests were employed in our study; and relevant results were summarized in Table 3 below.

Table 3. Unit Root Tests

ADF Unit Root Tests			LM Structural Break Unit Root Test		
Variable	Constant	Constant +trend	Critical Value	k	Break Date
MI	-2.381	-1.931	-240.110***	8	2012
Y	-3.635**	-3.565*	-48.021***	8	2018
PSI	-1.682	-1.107	-11.786***	8	2014
Δ MI	-2.953*	-3.682**	-	-	-
Δ Y	-5.361***	-5.185***	-	-	-
Δ PSI	-4.126***	-4.138**	-	-	-
Critical Value			Critical Value		
%1	-3.808	-4.498	-4.084		
%5	-3.020	-3.658	-3.487		
%10	-2.650	-3.268	-3.185		

Notes: ***, ** and * denote statistical significance at 1%, 5% and 10% significance level, respectively. Δ denotes the first order difference operator.

According to ADF unit root test, growth was found to be stationary at the level whereas the other variables were stationary when their first difference was taken. On the other hand, results of the unit root test with structural break suggested that variables were not containing structural break unit root at their level values. These results allowed us to continue with our analysis with SVAR model.

Unit Root analysis results indicated that all variables were stationary at the same level I(1) and accordingly it was considered that cointegration, that is, long term relationship could be existed among variables. For the cointegration analysis, optimal lag length is required to be determined at first. VAR model was employed to determine optimal lag length. Table 4 summarizes obtained optimal lag-lengths.

Table 4. Determination of Optimal Lag Lengths with VAR model

Gecikme	LR	FPE	AIC	SC	HQ
0	NA	0.006075	3.409723	3.558118	3.430185
1	24.05626*	0.003029*	2.691419*	3.285000*	2.773266*
2	5.632707	0.005491	3.179355	4.218122	3.322587

According to the optimal lag length results of LR, FPE, AIC, SC, HQ information criteria, lag length was found to be 1. Chart 3 exhibits inverse root analysis conducted on AR characteristic polynomial by selecting VAR Model with 1 lag to conform stability condition.

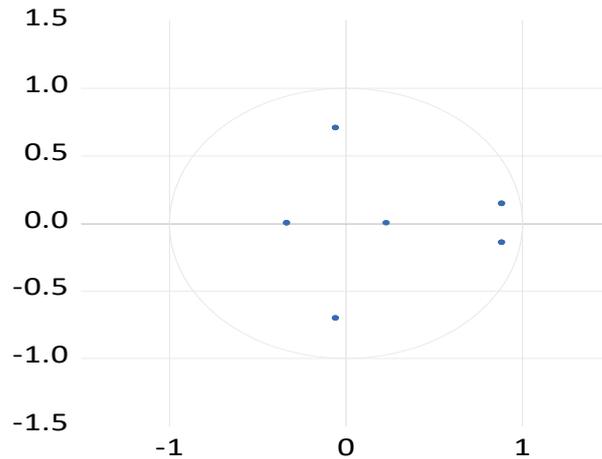


Chart 3. AR Characteristic Polynomial Inverse Root Analysis

In Chart 3, VAR (1) model was found to be stationary because AR characteristic polynomial inverse roots were in the unit circle. Then, other diagnostic tests of heteroscedasticity and autocorrelation Lagrange Multiplier (LM) and White tests were conducted; and their results were summarized in Table 5.

Table 5. LM Autocorrelation Test and White Changing Variance Test Results

LM Autocorrelation Test			White Changing Variance Test Results		
Delay	Test Stat.	Prob.	Chi-Square	Degrees of freedom	Prob.
1	0.665	0.468	88.624	72	0.112

In the VAR Model with single lag, it was concluded that there was no autocorrelation and heteroscedasticity issue. After the diagnostic test results, responses of variables toward shocks were estimated through SVAR model; and long term factor matrix results were summarized in Table 6.

Table 6. Long Run Multiplier Matrix

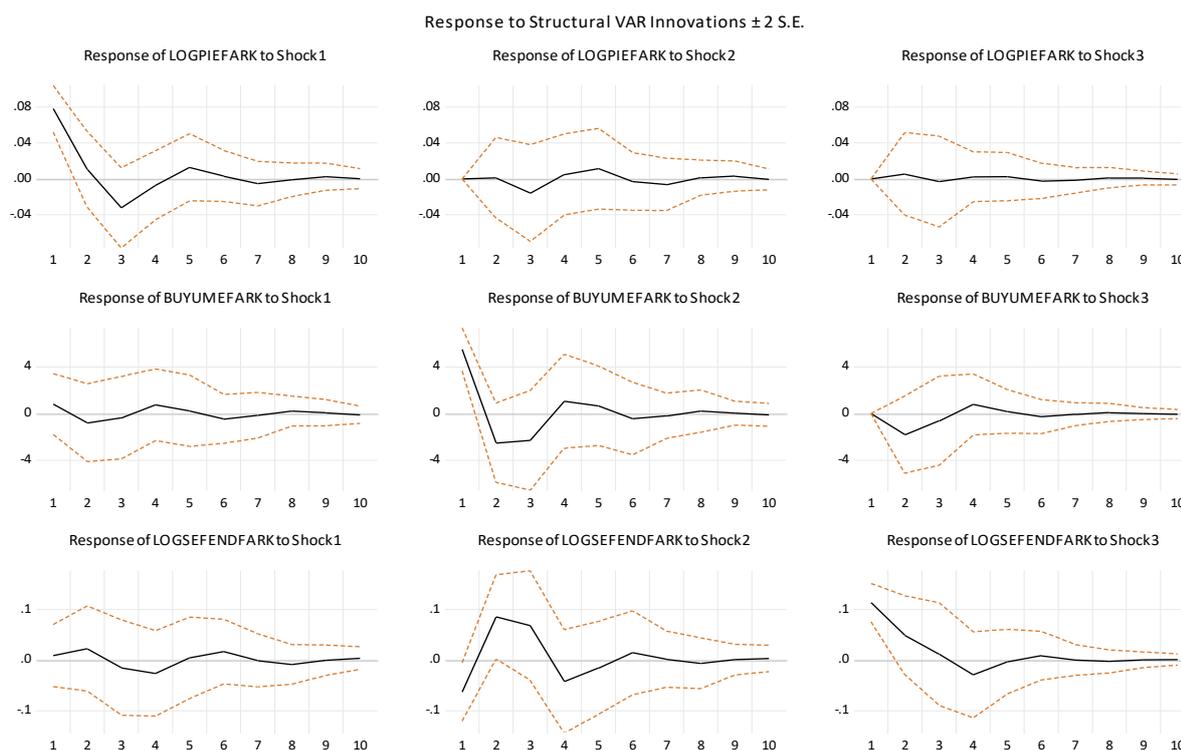
	Coefficient	Standard error	Prob. Value
C(1)	-2.569862	17.62959	0.8841
C(2)	-0.164180	0.365554	0.6533
C(3)	0.012528**	0.004884	0.0103
C(4)	0.073092***	0.012182	0.0000
C(5)	5.466990***	0.911165	0.0000
C(6)	0.113293***	0.018882	0.0000

According to Table 6, rows of the matrix indicate variables whereas columns indicate the effects on variables caused by shocks. Coefficients in the factor matrix were described as below;

- C1: Responses of political instability index toward self-shocks,
- C2: Responses of growth toward political instability index,
- C3: Responses of misery index toward political instability index shocks,
- C4: Responses of growth toward self-shocks,
- C5: Responses of misery index toward growth shocks,
- C6: Responses of misery index toward self-shocks,

One of the constraints of SVAR analysis is the difficulty to interpret the coefficients of long term factor matrix. In this case, signs of these coefficients are taken into consideration. In this regard, it was concluded with our findings that a long term positive correlation existed at 5% statistically significance level between political instability index and misery index. This finding was interpreted as that political instabilities increased misery level in the country and adversely affected public welfare along the concerned period. On the other hand, the correlation between misery index and growth shocks were found to be positive and statistically significant. This finding was explained as that economic growth in the concerned period did not increase welfare. When it is considered that unemployment and inflation are the most prominent constituents of the misery index, it could be suggested based on our findings that experienced economic growth caused an inflationist impact and did not decrease the unemployment rate.

In the study, impulse-response analyses were conducted with structural decomposition and obtained results were exhibited in Chart 4.



Impulse response functions obtained by structural decomposition in the SVAR model show the direction and duration of the response of the variables to one standard deviation in structural shocks.

According to Chart 4, although the response of the political instability index to growth shocks remains stable in the first period, it turns negative after the second period, but this response is not permanent and gradually loses its significance by turning positive after the 4th period. On the other hand, a one standard deviation shock in the misery index has no significant effect on the political instability index.

The response of the poverty index to shocks in the political instability index is initially positive but turns negative after two periods and this effect decreases after the sixth period. The response of the misery index to a growth shock is negative in the first three periods, turns positive in the fourth period and then the effect disappears.

The response of growth to shocks in the political instability index is negative in the first two periods and positive afterwards, and the effect disappears after the fifth period. The response of growth to shocks in the misery index is negative in the first period but turns positive after the second period and disappears after the fifth period.

According to Chart 4, response of misery index toward the shocks in the political instability index was positive in the beginning; but after two terms, it turned to negative; after the sixth term this effect decreased. Response of misery index toward growth shock was negative along first three terms; but it turned to positive at the fourth term; its effect disappeared thereafter. Response of growth toward political instability index shocks was negative at the first two terms; but then it turned to positive; the effect disappeared after the 5th term.

In the literature, there are studies similar to these findings on the relationship between growth and poverty index and political instability index. Dadgar and Nazari (2018) for Iran and Wang et al. (2019) for Pakistan found a negative relationship between growth and misery index.

Table 7. Variance Decomposition

Variance Decomposition for PSI Variable			
Period	Shock 1	Shock 2	Shock 3
1	100.0000	0.000000	0.000000
2	99.13034	0.001223	0.868438
3	86.28379	1.901881	11.81433
4	64.18463	1.631616	34.18375
5	46.42192	1.673592	51.90449
6	35.47770	1.891299	62.63100
7	28.97862	1.842307	69.17907
8	25.24861	2.001871	72.74952
9	23.46096	2.345693	74.19334

10	22.86462	2.589163	74.54622
Variance Decomposition for Y Variable			
1	0.117910	99.88209	0.000000
2	3.170882	92.52776	4.301361
3	2.858231	88.56664	8.575126
4	3.071144	87.01865	9.910205
5	3.128465	87.12404	9.747497
6	3.432081	86.80455	9.763371
7	3.418048	85.83133	10.75062
8	3.405910	85.44755	11.14654
9	3.539940	85.23114	11.22892
10	3.666469	84.92307	11.41047
Variance Decomposition for MI Variable			
1	0.528206	26.62361	72.84819
2	0.665067	11.69884	87.63610
3	0.873779	13.16862	85.95760
4	3.469299	10.37435	86.15635
5	5.453642	7.937960	86.60840
6	6.853195	7.222699	85.92411
7	8.627914	7.143883	84.22820
8	10.45640	6.729295	82.81431
9	11.85350	6.422184	81.72432
10	12.97366	6.374014	80.65233

When Table 7 is analysed, it is seen that while the entire change in the political instability index in the 1st period is due to itself, the most explanatory variable at the end of the 10th period is MI, i.e. the misery index. For the Y variable representing growth, 99% of the change in the 1st period is due to its own value, while 0.11% is due to the PSI variable. At the end of the 10th period, 11.4% of the change in growth is caused by the MI variable and 3.6% by the PSI variable. For the MI variable, in the first period, 72.8% of the change in growth is due to itself, 0.5% is due to the PSI variable and 26.6% is due to the Y variable. However, at the end of the 10th period, the growth effect decreased to 6.37%, while the effect on the political instability index increased to 12.9%. In this case, we can say that the political instability index is the most significant explanatory factor of the misery index in the long run.

4. RESULTS AND CONCLUSIONS

Political stability creates an environment of confidence in economies, attracts both domestic and foreign capital, paves the way for the realisation of effective and efficient projects, affects economic growth and thus plays an important role in increasing the welfare level of the people. Political stability/instability, which refers to the possibility of change in governments, may cause a decrease in investments, stagnation in the production process, a decrease in economic growth rates and thus a decrease in the welfare level of the people due to the uncertainty it creates in economies.

From this point of view, in this study, the relationship between the political instability index and the misery index, which is accepted as an important indicator to measure the welfare level of the people, is tried to be estimated with the Structural VAR (SVAR) model for the Turkish economy for the period 2002-2022.

The response of the misery index to shocks in the political instability index is initially positive but turns negative after two periods. This finding can be interpreted as that poverty decreases as political stability increases, but this effect is not permanent in the long run. Despite the decrease in political instability in the country, the decline in the welfare level of the people cannot be prevented in the long run.

The response of the misery index to growth shocks, while initially negative, turns positive in the long run and then disappears. This finding can be interpreted as economic growth does not lead to an increase in welfare in the long run. Considering that unemployment and inflation are the most important components of the misery index, we can say that economic growth has an inflationary effect, does not reduce unemployment and does not create employment. This result supports the results obtained between the political instability index and the misery index and is also evidence that increases in economic growth and political stability do not always result in increased welfare.

Moreover, the variance decomposition results show that the most significant long-run predictor of the misery index is the political instability index. Although the response of the political instability index to growth shocks is initially negative, this response is not permanent and gradually loses its significance by turning positive after the 4th period. Although increases in political stability have a positive effect on growth in the short run, they do not have a

significant effect in the long run. This can be interpreted as political stability alone is not sufficient for growth, especially in the long run.

The Turkish economy has been experiencing inflation and unemployment problems for many years and has even gained inertia. Macroeconomic destabilising conditions such as high exchange rates, frequent capital inflows and outflows in connection with global developments, chronic inflation, and a current account deficit that has been persisting for years make an already fragile economy even more fragile. In this framework, it is recommended that policy makers determine much more stable and decisive policies to reduce unemployment, inflation and interest rates, and to take measures to increase the welfare of the people in the long term and to implement them steadily together with structural reforms.

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