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The Economic Track Record of Pious Populists – Evidence from Turkey

In this policy brief, I summarize recent research on the economic track record of the Justice and Development Party (AKP) in Turkey. The central finding is that Turkey under AKP grew no faster in terms of GDP per capita when compared with a counterpart constructed using the Synthetic Control Method (SCM). Expanding the outcome set to health and education reveals large positive differences in both infant and maternal mortality as well as university enrollment, consistent with stated AKP policies to improve access to health and education sectors for the relatively poorer segments of the population. Yet, even though these improvements benefited women to a large extent, there are no commensurate gains in female labor force participation, and female unemployment has increased under AKP's watch. Of further concern is the degree to which the SCM method applied to institutional measures fail to find any meaningful early improvements along this dimension, and more often than not reveals adverse institutional trajectories.



The Turkish political economy represents something of a puzzle. After a traumatic financial crisis in 2001, a series of political and economic reforms brought higher economic growth and a promise of EU membership. An authoritarian political elite, spearheaded by a military with a troubled past of controversial coups ousting democratically-elected governments, looked set to give way to a new cadre of political and economic elites who, despite a recent past as radical Islamists, seemed to favor free markets as well as democratic reform.

News media, as well as several international organizations, heaped praise on the Turkish government. In some cases, these represented [optimistic interpretations](#) of events, whereas in some cases they inadvertently served to spread a [misleading picture of the strength of the Turkish economy](#). A recent World Bank report described Turkey's economic success as "[a source of inspiration for a number of developing countries, particularly, but not only, in the Muslim world](#)" (World Bank, 2014).

Today, the state of Turkey's political economy is represented very [differently](#). Several international rankings of political institutions (Meyersson, 2016b) and human rights show Turkey spiraling ever lower, following years of stifling freedom of speech, [recurring political witch hunts, and escalating internal violence](#). Lower GDP growth rates, falling debt ratings and exchange rates are evidence less of a rising new economic giant than a [stagnating middle income country under increasingly illiberal rule](#). A [recent IMF staff report](#) (IMF, 2016) noted how Turkey remains "vulnerable to external shocks" and a labor market "marred by rapidly increasing labor costs, stagnant productivity, and a low employment rate, especially among women."

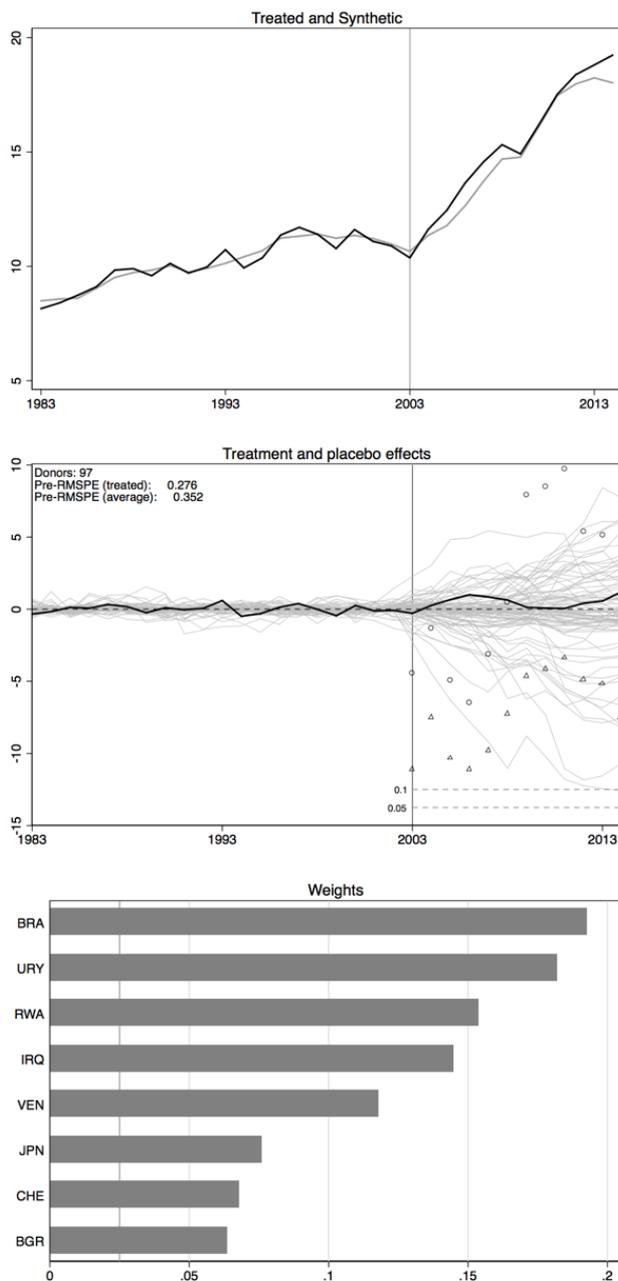
What has been the AKP's track record on economic growth in Turkey? While some has described it as an economic success (as noted above), others have pointed out that Turkey's economic development has not been much more than [middling](#) (Rodrik, 2015).

Evaluating the economic track record of the AKP faces numerous challenges. The rise to power of the AKP government came in the wake of one of the worst financial crises in modern history and following a number of substantial economic and political reforms. Finding a candidate for the counterfactual, a Turkey without AKP rule, is challenging and looking solely at time series of Turkish development omits significant trends that likely shape its trajectory.

The focus of my new paper (Meyersson, 2016a) is thus to examine the economic and institutional effects of the AKP in a comparative case study framework. Using the Synthetic Control Method (SCM), developed by Abadie et al. (2010, 2015), I estimate the impact of the AKP on Turkey's GDP per capita by comparing it to a weighted average of control units, similar in pre-intervention period observables. The construction of such a "synthetic control" avoids the difficulty of selecting a single (or a few) comparable country, and instead allows for a data-driven approach to find the best candidate as a combination of many other countries. This avoids ambiguity about how comparison units should be chosen, especially when done on the basis of subjective measures of affinity between treated and untreated units. The method further complements more qualitative research with a research design that specifically incorporates pre-treatment dynamics, which due to the financial crisis preceding the election of AKP to power, is essential. Similar to a difference-in-differences strategy, SCM compares differences in treated and untreated units before and after the event of interest. But in contrast to such a strategy design, SCM allocates different weights to different untreated units based on a set of covariates.



Figure 1. Results for Turkey's GDP per capita



Note: Upper graph shows Turkey's GDP per capita compared to a synthetic counterpart. The middle graph shows the difference between the former and the latter (black line) as well as placebo differences for untreated units (gray lines). The lowest graph plots the weights assigned to countries that constitute the synthetic control for Turkey. See Meyersson (2016a) for details.

As shown in Figure 1, I find that GDP per capita under the AKP in Turkey has not grown faster than its synthetic control. A “synthetic Turkey” (upper graph in Figure 1), which went through

similar pre-2003 dynamics in its GDP per capita, also experienced an economic rebound very similar to that of Turkey.

This is robust to a range of specifications that in different ways account for the pre-AKP GDP dynamics. Restricting the set of control units to Muslim countries only, reveals Turkey to have actually grown significantly slower than the weighted combination of the Muslim counterparts. Moreover, a comparison of severe financial crises using SCM shows Turkey's post-crisis trajectory in GDP per capita to be no faster than its synthetic control. The focus on post-crisis recoveries allows estimation of the composite effect, including both the financial crisis of 2001 as well as the election of AKP and, under the assumption that post-crisis – and pre-AKP – reforms were indeed growth enhancing, provides an upper bound for the effect of the AKP.

These results, however, hide some of the more transformative aspects of how the Turkish economy has changed during the AKP's reign. Focusing on education outcomes, I instead find large positive effects on university enrollment for both men and women. These improvements are mirrored for key health variables such as maternal and infant mortality, and are likely responses to large-scale policy changes implemented by the AKP that are discussed in Meyersson (2016a). The policy changes include the extensive Health Transformation Program (HTP) implemented by the AKP government (Atun et al 2013), as well as mushrooming of provincial universities from 2006 and onward (Çelik and Gür, 2013).

As such, to the extent that the AKP has engaged in populism from a macroeconomic perspective, it has nonetheless also experienced a significant degree of social mobility, especially among the poorer segments of society. An exaggerated focus on economic output risks obfuscating the structural changes in key factor endowments that could very well prove beneficial in the long run. Still, the improved access to these areas has not been followed by improved outcomes in the labor markets, especially for women. The period under

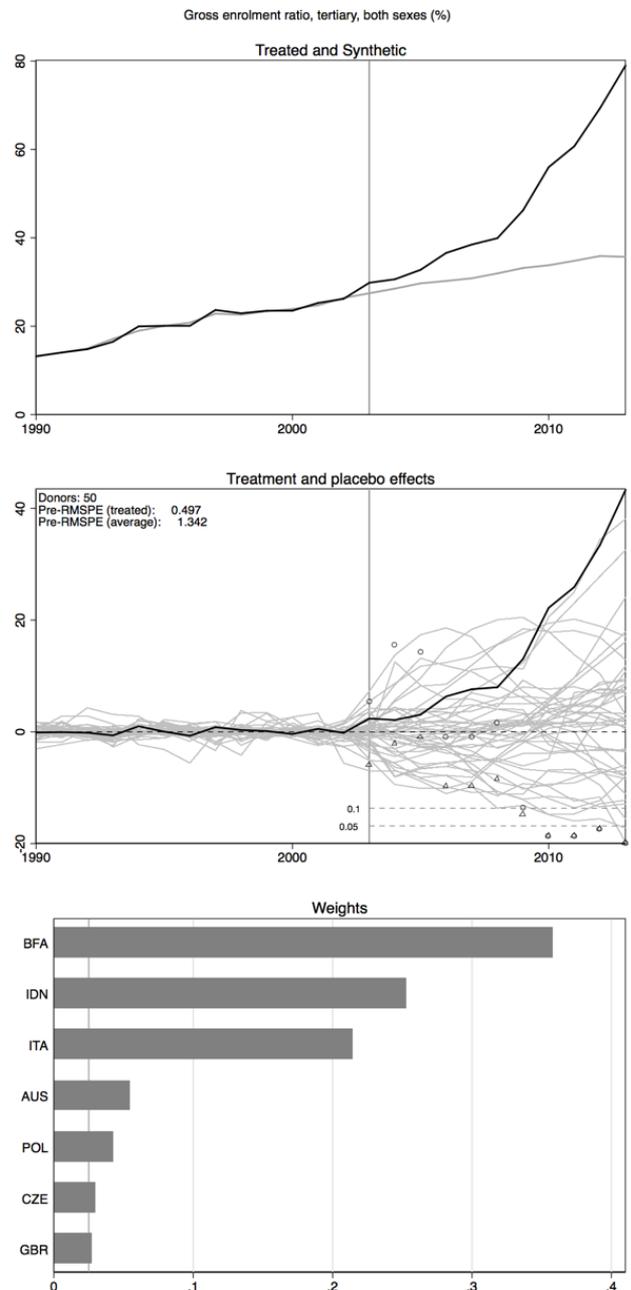


AKP has seen significant reductions in both female labor force participation as well as higher female unemployment. This raises concerns over to what extent the Turkish government has been able to put a valuable talent reserve to productive use, as well as allowing women meaningful labor market returns to education.

An evaluation of the AKP's institutional effect using multiple institutional indicators, measuring various aspects ranging from institutionalized authority, liberal democracy, and human rights results in a failure to find any durable early positive effects during AKP's tenure. In the longer run, for all outcomes the overall effect seems to have been clearly negative. Finally, the significant reduction in military rents, whether measured in terms of expenditure or personnel, is illustrative of the degree to which the military's political power diminished relatively early on, and posits concerns over lower economic rents as another source of friction between the civil and military loci of power in the country.

Overall, the results point to Turkey undergoing a transformative period during the AKP, socioeconomically as well as politically. Even though the initial years of higher GDP per capita growth under the AKP, in absolute terms, dwindle significantly in comparison to a synthetic counterpart, increased access to health and education provide reasons for political support of a government that has extended a socioeconomic franchise to a larger segment.

Figure 2. Results for Turkey's gross enrollment in tertiary education



Note: Upper graph shows Turkey's gross enrollment in tertiary education compared to a synthetic counterpart. The middle graph shows the difference between the former and the latter (black line) as well as placebo differences for untreated units (gray lines). The lowest graph plots the weights assigned to countries that constitute the synthetic control for Turkey. See Meyersson (2016a) for details.



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