Populism & Politics (P&P)
Article #8

On the Political Economy of Populism:

The Decline of the Turkish Economy under
Erdoğan's Populist-Authoritarian Regime

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FEBRUARY 9, 2022

BIO

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ABSTRACT

Independent of its ideology, beliefs, ideals, strategy or tactics, populism, in the final analysis, is a way of seizing power. Notwithstanding, differences between the different strands carry significant repercussions. One leader who has drawn increasing attention on the crest of the most recent wave of populism is Turkey's president Erdoğan. It seems that after a short period of progressive and democratic leadership through to 2007, Erdoğan's fundamental beliefs and personality surfaced, and the entire process was reversed, with devastating consequences for Turkey.

This article intends to show how Erdoğan's Islamist–nationalist populism has undermined Turkey's already fragile autonomous institutions and paved the way for reform reversals and incoherent economic policies. Politically, having denied the fact that Turkey's positive image both in the Western

and Islamic world throughout the 2000s was closely tied to the country's skillful harmonization of democracy, Muslim identity, and economic development in a free-market context, Erdoğan has succeeded in branding Turkey as a nationalist, Islamist, and authoritarian country that makes trouble for its neighbors and is hard to work with. Economically, "Erdoğanism" has triggered Turkey's current political and economic meltdown, as observed in recent macroeconomic indicators, including rampant inflation, mounting national debt, massive unemployment, deteriorated income distribution, rising poverty, and a profound currency shock.

INTRODUCTION

Whether it adopts a right or left-wing ideology or it is embraced as a belief or a set of ideals, and no matter the strategy or tactics, populism, in the final analysis, is a way of seizing power, and differences between the different strands carry significant repercussions. Many diverse economic, political, and cultural factors have been put forward to explain the rise of populism. At the international level, scholars point to the distortions created by hyper-globalization, the impositions of great powers on smaller nation-states, and the related sovereignty considerations. State repression, corrupt elites, and anxiety over inequality and cultural class consciousness are salient at the domestic level. We could point to the Great Recession between 2008 and 2009—especially how the world’s elites dealt with it—as a more proximate cause of the most recent wave of global populism. How the COVID-19 pandemic, which was still raging at the time of writing (in early 2022), will influence the populist zeitgeist is not yet clear.

One leader who has drawn increasing attention on the crest of the most recent wave of populism is Turkey’s incumbent president, Recep Tayyip Erdoğan (Erdoğan, henceforth). Before coming to office as Turkey’s prime minister and leader of the Justice and Development Party (AKP) in the early 2000s, he was adamant that he had “developed, changed, and transformed” himself and accordingly revised the strict religious–nationalist ideological worldview he had exhibited as part of the Islamist Millî Görüş (“National

View”) movement and as mayor of Istanbul. As the party leader, he stipulated that the AKP’s three goals were to eliminate chronic corruption, eradicate widespread poverty, and complete Turkey’s transition to democracy. During his first term as prime minister (2003–2007), he stuck the progressive reforms agenda of Turkey, set forth by the former coalition governments under the auspices of the international organization. The main pillars of the reforms were to establish a pluralist and democratic state with a particular priority on human rights, the rule of law, and membership in the European Union (EU). As a result, Turkey’s economic performance during the same period was truly remarkable, with gains on almost every development goal comparable to the top performer emerging market economies (EMEs).

However, after a period of progressive and democratic leadership through to 2007, Erdoğan’s fundamental beliefs and personality surfaced, and the entire process was reversed, with devastating consequences for Turkey. The AKP election victory in 2011 was a turning point, but more so after the transition to an executive presidential system in June 2018, when Erdoğan revealed his true authoritarian tendencies. As a result, after almost three and half years, Turkey has become a one-person regime, with increasingly dire implications for the economy, politics, and the broader society.

This article argues that Erdoğan’s religious–nationalist populism has

been one of the primary triggers of Turkey's current political and economic meltdown. Moreover, his populist rhetoric has weakened Turkey's already fragile autonomous institutions and paved the way for reform reversals and inconsistent (and incoherent) economic policy. Taken together, Erdoğanism has brought a woeful deterioration in macroeconomic indicators, including rampant inflation, mounting national debt, massive unemployment, rising poverty, and a profound currency shock.

None of this failure is surprising. Around the world, populists in government have established a reputation for contesting institutional autonomy, rejecting expertise, the division of labor and science, and disregarding the principles of good governance. More to the point, they are renowned for damaging social cohesion by leveraging societal divisions and fears to get into power and—once they do—for their rampant addiction to staying in office at all costs.

Empirical evidence shows that although populists come to power on a promise to “restore” democracy, return sovereignty to the people, and enhance the welfare of citizens, they are quick to change the rules of the game that brought them to power and obstruct the peaceful transition of power when elections roll around again. In that regard, populism represents a regressive dynamic of history rather than a progressive one.

The remainder of the article is organized as follows. The first section analyzes Erdoğan's turn from “political

outsider” to an incumbent populist demagogue through the lens of the most salient theories of authoritarian populism. The second section details Turkey's economic performance under successive AKP governments since 2002. The third section analyzes how the AKP's increasingly populist mode of governance since 2010 has undermined Turkey's overall macroeconomic outcomes. In particular, it shows how the turn to populism has paralleled the rise of reform fatigue, a turning away from good governance and—ultimately—a consolidation of crony capitalism, and contingent and reckless policy-making. Noting the severe institutional decay in Turkey since 2018 and pandemic-related hits to the economy, the final two sections analyze the impacts of Erdoğan's reckless populist model, which may well wipe out all of the welfare and human capital gains achieved over the past two decades. The conclusion draws the findings together and offers several lessons.

Turkish President Recep Tayyip Erdoğan. Photo: Mustafa Kirazlı.

THE RISE OF ERDOĞAN, THE POPULIST

Among others, the fragmentation of the global order into multipolarity has been an important trigger of populism worldwide. In the absence of a dominant hegemonic power to enforce common norms, the world finds itself increasingly subject to competing norms, which coexist and challenge one another. That process, obviously, fosters hybrid approaches to global and domestic governance, resulting in a diffusion of pragmatic and often opportunistic responses to growing challenges.[1] However, while hybrid approaches might sometimes help cooperation on crucial economic issues, more often than not, they produce significant technological, political, and security conflicts. The above-mentioned evolving contingency or discretionary approach to governance in crucial areas such as trade, developmental aid, intellectual property rights, public enterprises, currency reform,

and environmental protectionism is shaping the nature of the emerging world order.

Against this backdrop, populists have risen to power in EMEs like Brazil, Russia, South Africa, and Turkey, adopting policy responses that seek to address the various crises without triggering default and the subsequent recourse to a large-scale IMF austerity program.

Erdoğan typifies this approach. His rise to power and populist approach in Turkey reflects, in many ways, Robert Barr's definition of populism. Specifically, Barr defines populism as "a mass movement led by an outsider or maverick seeking to gain or maintain power by using anti-establishment appeals and plebiscitarian linkages." [2] Moreover, as described by Aytaç and Öniş, [3] the "core characteristics" of populist

mobilization are political flexibility, economic pragmatism, and recourse to cultural politics.

Drawing inspiration from Zygmunt Bauman's notion of "retrotopia," Ezgi Elçi[4] has summarized this approach neatly. First, populists exploit nostalgia (i.e., the promise to return to an imaginary past) to construct a "populist heartland," corresponding to a retrospectively constructed utopia based on an abandoned but undead past. Erdoğan's constant appeal to Turkey's "glorious" Ottoman past is crucial here. In this context, whenever a policy choice appears to have failed and no scapegoat is readily available, Erdoğan turns habitually to religious and abstract national concepts. Erdoğan arguably learned this trait in his lengthy career in the Millî Görüş movement, which was adept at blending victim rhetoric with appeals to Turkey's glorious Islamic past. One such appeal notes that "Instead of being a passive subordinate, follower, obedient to Europe, we [i.e., Turkey] should be the head and leader of the Islamic world." The assumption here seems to be that the Islamic world is demanding that Turkey take over the leading position of the World of Islam as a "big brother." Erdoğan's call presupposes the existence of an appropriate institutionalized mechanism that would facilitate Turkey's leadership of the Islamic world, which is highly doubtful. Yet, influenced by an image of a glorious past in which Ottoman Turks did, in fact, lead the Muslim world, the Turkish people are unsurprisingly drawn to such populist appeals. Similarly, Erdoğan's religious aspirations can

speak to the widespread desire for economic security via debt relief, as in his recurrent statement that "interest is prohibited (haram) in Islam, and there is nothing to discuss from an economic perspective as interest relies on direct compulsory principles and restrictions. We will implement an interest-free economy."

Second, populists deploy anti-establishment rhetoric against the power elite. As Mudde has noted, populism is a "thin ideology" that considers society separated into two antagonistic groups, the people versus the elite. Referring to Mudde's approach, Dani Rodrik defines populism as "an anti-establishment orientation, a claim to speak for the people against the elites, opposition to liberal economics and globalization, and often (but not always) a penchant for authoritarian governance." Erdoğan's early status as an "outsider" against the entrenched beneficiaries of the status quo is a constant refrain in his claim to be a voice for the "forgotten" Turkish people, the silent and big majority.

Third, populists emphasize the plebiscitary aspect of elections to create an impression that populist mobilization is nothing less than "the people" rising up to retake their sovereign rights. Populists legitimize themselves by claiming they represent the people's will against powerful and exclusionary interest-seeking coalitions among the elite.[5]

At a much deeper level, unsolved, long-lasting, and cross-cutting political cleavages within a society also fuel both the demand

and supply conditions of populist sentiments. Somer and McCoy define these cleavages as “formative rifts that either emerged or could not be resolved during the formation of nation-states, or, sometimes during fundamental re-formulations of states such as during transitions from communism to capitalism, or authoritarian to democratic regimes.”[6]

On the demand side, it is commonly accepted that populism appears as a backlash to a sense of severe crisis or discontent with present conditions.[7] Key domestic scapegoats include corrupt elites or a comprador bourgeoisie. Yet, in the present era, external factors—namely, globalization and its champions in the global elite—are pinned as key “external enemies” of the people. This concern is not entirely untethered from facts. Many academic studies have shown the adverse impacts of globalization on national economies, including financial instability, trade diversion due to unfair trading rules and competition, distortionary patents, and impacts on wages and labor conditions, mainly for low-skilled workers. Empirical evidence shows that import competition, especially from China after it joined the WTO in 2001, has led to higher unemployment, lower wages, and more governmental transfers in Western countries.[8]

As nation-states fail to manage the mentioned negative repercussions properly, the result is economic instability and the rise of chronic income inequality. Constraints that come through IMF-imposed austerity or belt-tightening programs, hitting

the most fragile segments of society the most, is believed to be caused by globalization. Also, on the assumption that large corporations are “too big to fail,” such firms become the priority for bailouts, while the poorer segments of society feel abandoned and alienated. In good times or bad, the perception that self-serving and corrupt local elites successfully align their interests with global capitalism at the expense of the most vulnerable segments of society breeds populism. More often than not, this demand for populist responses to economic problems is expressed through cultural codes, leading to a cultural backlash against multiculturalism, left-wing identity politics, and the like.[9] Populists tend to instrumentalize the above-mentioned external impacts and domestic reactions to legitimize their attacks on supranational institutions, reverse reforms, undermine checks and balances, and weaken local autonomous institutions.

What are the important repercussions of such a populist divide? The first implication is related to the leadership cult of the strong man that leads to authoritarianism. [10] The Encyclopedia Britannica lists features of authoritarian populism, including:

“extreme nationalism, racism, conspiracy mongering, and scapegoating of marginalized groups, each of which serves to consolidate the leader’s power, to distract public attention from the leader’s failures, or to conceal from the people the nature of the leader’s rule or the real causes of economic or social problems.”[11]

In this personalized form of politics, political parties lose their importance, and elections confirm the leader's authority rather than reflect the voters' policy preferences. [12]

The second implication is related to the national "economic model" that populists employ, which is typically highly heterodox and explicitly opposed to the "orthodox" way of doing things since this is the approach of the "economic elite." The focal point of a populist economic program changes depending on the sources of the crisis, such as trade, economic and financial shocks, the migration crisis, and cultural change. It might resemble pro-nationalist and anti-global rhetoric when the program targets the interests of ordinary citizens and the country as a whole through policies such as high growth, income redistribution, public spending, rising trade and tariffs barriers, tax cuts, restrictions on immigration.[13] As Dornbusch and Edwards showed in their early study on the political economy of populism, populists prioritize high growth and income redistribution through highly politicized resource transfers.[14]

We turn to the third implication, the systematic undermining of institutions. Populists' disdain for autonomous institutions and the discrediting of their role in economic development opens Pandora's Box. Rather than isolating institutions from interest group lobbying, the subordination of institutions to politics produces economic chaos. Attempts to limit the autonomy of policy-making agencies leave a country vulnerable

to further crisis as untested social, economic, and political experiments are deployed to address challenges. In the absence of institutional checks and balances, populists are free to employ heterodox policies that ignore economic efficiency criteria and resource constraints, promoting high growth through expansionary monetary and fiscal policies. The result is a vicious cycle of unstable prices, domestic and external deficits, and an associated accumulation of unsustainable national debt. As is well known, such an approach has led to cycles of boom and bust in many developing countries in Latin America and Asia as well as in Turkey at different conjunctures. The outcome of permanent fiscal and financial crises also triggers currency shocks, exacerbating the scale of the problems.

Moreover, government deficit financing can crowd out private investment and lead to higher inflation. In addition, restrictions on migration in developed countries can hamper workers' mobility and have a similarly inflationary impact on wages due to the mismatching of labor, skills, and demand. Finally, as the Latin American populist cases clearly show, the longer-term results are stagnation, lower productivity, and loss of competitiveness.

In power, populists increasingly employ more "divisive" rhetoric and policies, creating "enemies" both inside and outside the country to hide their incompetence and legitimize their governance. Populists' denial of scientific reason and good governance (professionalism,

autonomous institutions, expertise, division of labor, delegation, pluralism, participation, transparency, and accountability) results in the total erosion of the country's material, moral, and human capital stocks. It causes deep fragmentation across societal fault lines and prevents the formation of national coalitions from upgrading the economy through collective action, which is needed for painful and complicated reforms. The incompatible time dimension in unstable societies also makes politicians highly opportunist and short-term oriented at the expense of long-term structural reforms, which bring ex-ante costs and ex-post returns. In taking advantage of circumstances with little regard for principles or the consequences for others, expedient actions of opportunists are guided primarily by self-interested motives. The deadliest harm of this divisive rhetoric materializes in the erosion of social trust and social capital.

To conclude this section of the article, the recent assault of populist regimes on democracy and the market economy shows that they are increasingly distancing themselves from these public goods and becoming more authoritarian, refuting the optimistic view of populism as a "democratic corrective" to "technocratic governance."

On its face, the populist model champions collective welfare on the economic side and popular sovereignty in the political realm. Yet, in practice, populists can seldom keep their promises, and their mentality and policy toolkits are unable to meet economic and social challenges

sustainably. Because of successive political-economic crises, populists are increasingly forced into policy binds that do more harm than good and often substantially harm ordinary people. Therefore, in the long term, populists cannot increase the level of democracy, human rights, the rule of law, or welfare.

How does this theoretical outline speak to Erdoğan's populist vocation in Turkey? Three implications come to mind. First, he has deployed culture to construct a picture of an imaginary past and a promise to restore "lost glory." Second, he has exploited secular, religious, and ethnic cleavages to further divide the people. Third, Erdoğan's right-wing populism has quite opportunistically and pragmatically exploited ordinary Turks' discontent with the slow pace of economic development, the challenges of globalization, and Turkey's apparent failure to secure a more autonomous role for itself in the region and the world.

BEFORE AND AFTER THE 2001 CRISIS

Despite receiving just 25% of the vote in the 1994 mayoral election in Istanbul, Erdoğan won, holding the post until 1998. Then, antagonizing the establishment, he was jailed for four months on trumped-up charges of “anti-secular” behavior and subsequently banned from politics. Erdoğan’s experience of “political persecution” at the hands of “an unjust establishment” is central to his political rise. Soon after being released from prison, he and several others in the “modernist wing” of the Millî Görüş founded the AKP in 2001.

The party swept to power in the 2002 elections, and in 2003, after the Constitutional Court overturned the ban on him holding political office (a move that has never been satisfactorily explained), he became a member of parliament and then prime minister. Given the longstanding (and often justified) sense among the country’s pious Muslim population that it was the victim of “persecution” by the secular elite, Erdoğan’s rise to power represented the “voice of the people” moving to the center of Turkish politics. Moreover, his ascension came in the wake of tremendous popular discontent with the deep and successive economic and political crises that roiled Turkey under the rule of the pro-status quo parties throughout the 1990s.

Erdoğan’s good fortune continued in that the painful (and electorally toxic) reforms needed to right-size the economy after the severe crisis of 2001 had already been implemented by the previous

government. Thus, although he came to power as an “outsider,” he took over an economy that had already begun to recover significantly and move smoothly. In other words, the comprehensive structural reforms in the post-crisis era, plus the exceptionally supportive overall domestic and global circumstances, helped Erdoğan achieve remarkable economic outcomes during his first term in office (2003–2007). As Spicer has recently noted, “Erdoğan leveraged the economic rebound and a diplomatic pivot to the West to bring about a decade of prosperity. Poverty and unemployment plunged. Inflation that was in triple digits a decade earlier touched 5%, boosting the Turkish lira’s appeal for locals and foreigners.”[15]

However, things started to change during his second term (2007–2011). Even though the economy resumed after a relatively short interruption during the Great Recession and returned to the pre-crisis growth path, there were visible signs of deterioration in the quality of growth, including declines in total factor productivity (TFP) and foreign direct investment (FDI) as well as weaker job creation. As a result, although growth in the third period (2011–2015) was above average, its quality continued to decline, and it quickly moved away from sustainability. Moreover, institutions have been further destabilized through destructive policies and a patchy record of reform over the period. Recent indicators about

Erdoğan's fourth and most recent period in office, after the new executive presidential system was introduced in June 2018. Now we see that Erdoğan is heading toward a kind of "Pyrrhic victory." Having brought the entire political order to heel by taming institutions, Erdoğan looks likely to reap a bitter harvest, given the damage wreaked in the process.

THE POLITICAL LEGACY

In terms of political tradition, Erdoğan inherited the legacy of the first well-known right-wing populist, Adnan Menderes, who became Turkey's prime minister in the first free and multiparty elections in 1950. After a decade in power, the popular Menderes was felled in a military coup in early 1960 and then executed by the army a year later. This "martyrdom" of a prime minister beloved in many of the country's poor rural parts underpinned a longstanding view of a "pure, innocent, and silent majority" against the status quo, at least for a large segment of Turkish society.

That assault on the "will and the sovereignty of people" created an exceptional and lasting political leverage for right-wing politicians to mobilize political support in Turkey. As famously observed by Metin Heper, the Republican People's Party (CHP) became "the state party" in Turkey, representing its "bureaucratic center" in an apparent "center-periphery" divide.[16] From the 1950s onwards, center-right parties have addressed the tension between the Kemalist elite – the bureaucracy and

the military – and ordinary people through religious symbols and emphasizing the country's secular vs. anti-secular cleavage. A succession of populist right-wing parties, from Menderes' Democrat Party to the Justice Party of Süleyman Demirel and the Motherland Party of Turgut Özal, have taken up this mantle. The AKP is the last in this long line. In other words, the AKP has leveraged a widespread view in Turkey that the center-right represents the true "will of the people" and the establishment parties' recurrent and persisting mistakes, especially in the troubled 1990s.

MORE ON THE ECONOMIC LEGACY

As mentioned, persistent economic instability in the 1990s, culminating in a debt and currency crisis in 2001, paved the way for the AKP to come to power in 2002. This was nothing short of an institutional realignment in Turkey, paving the way for a more stable institution order. As Olson showed in his path-breaking book, *The Rise and Decline of Nations: Economic Growth, Stagflation, and Social Rigidities*, [18] institutions are shaped by distributional coalitions, the relative power of competing groups, and individuals in society. In that context, institutional reform follows either the collapse of existing political balances or results from new political coalitions favoring comprehensive reforms, mainly to create inclusive institutions. Unlike distributional coalitions, inclusive institutions effectively delegate activities to professional bureaucrats

and autonomous institutions.

Acemoglu and colleagues mention six dimensions in achieving such institutions.[19] The first of these is voice and accountability in selecting government, freedom of expression, freedom of association, and a free media. The second is political stability and the absence of violence, particularly politically-motivated violence, including terrorism. The third dimension is government effectiveness in the quality of public services, its independence from political pressures, the quality of policy formulation and implementation, and the government's commitment to such policies. The fourth dimension is regulatory quality in formulating and implementing sound policies and regulations that permit and promote private sector development. The rule of law is the fifth dimension, mainly in the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. The sixth and final dimension is control of corruption so that public power is not exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

The 2001 Turkish economic crisis opened up space for the kind of comprehensive economic, political, and social reforms needed to create the conditions for inclusive institutions. The country was assisted in this by support from the IMF and the World Bank alongside the EU, the so-called "double anchors" of reform. The most important institutional reforms included (i)

improving the legal system in terms of its efficiency and independence from the executive; (ii) reducing policy uncertainty by restoring the independence of the Turkish Central Bank and other regulatory agencies; (iii) reducing political discretion in economic decisions making; (iv) increasing the overall competitiveness of the economy; and (v) containing corruption.

The most critical autonomous regulatory bodies, which aimed to professionalize the bureaucracy and reduce discretionary government influence, over-regulation, and policy uncertainty, were the Public Procurement Authority, the Banking Regulatory and Supervision Agency, the Energy Market Regulatory Authority, the Telecommunications Authority, the Competition Authority, and the Capital Markets Board.

REFORM AND OPENING, AND THE GOLDEN AGE OF GROWTH (2003–2007)

Erdogan started his political career as a prime minister when a smoothly functioning reform program inside produced quite promising outcomes in a highly supportive global economic conjuncture when the volume of trade and finance of every kind were expanding, and the price of essential commodities was already beginning to surge, positively benefiting Turkey's trade balance. Domestically, the conditionality imposed by Turkey's aspiration for full EU membership and the robust structural reforms already accomplished provided a solid anchor for the government..

To his credit, as the leader of a newly elected new government, Erdoğan's success in bringing conservative, nationalist, and liberal groups into a unified reform coalition was notable. As mentioned before, reform coalitions are essential to consolidate painful and costly reforms that only bear fruit in the long term. Governments with short-term horizons generally avoid such reforms and rely upon more populist promises. With the engine of economic growth on autopilot, the first period of Erdoğan's government can certainly be described as the golden age of growth in Turkey during his 20-year reign.

Table 1: Turkey's Growth Performance Compared (GDP, annual, %)

	2003–2008	2009	2010–2011	2012–2017	2018–2020
East Asia & Pacific (excluding high income)	9.8	7.7	9.1	6.9	4.4
East Asia & Pacific	5.0	1.4	5.8	4.5	2.6
Middle income	7.0	2.4	6.8	4.7	2.1
Upper middle income	7.3	1.7	7.2	4.5	2.4
Turkey	6.2	–4.8	9.8	5.9	1.9
Argentina	8.0	–5.6	8.1	0.4	–4.9
Brazil	4.2	–0.1	5.8	0.0	–0.3
China	11.4	9.4	10.1	7.3	5.0
Indonesia	5.6	4.6	6.2	5.3	2.7
India	7.1	7.9	6.9	7.1	0.9
Kazakhstan	8.6	1.2	7.4	3.6	2.0
Russia	7.1	–7.8	4.4	1.1	0.6
Source: World Development Indicators, World Bank					

Source: World Bank, "World Development Indicators." Retrieved from <https://databank.worldbank.org/source/world-development-indicators>

While Turkey's growth during the first period of his government was slightly lower than its peers, it was well above the country's historical average. Turkey recorded an overall average growth rate of 6.2% between 2003 and 2008, almost one percentage point lower than the comparison groups in the middle-income countries (MICs). Except for Brazil and Indonesia, other EMEs fared better than Turkey (Table 1, Figure 2). Despite that, growth exceeded the long-run average of 5% per annum in Turkey.[21] Thanks to a relatively cheaper foreign currency, in the first six years, according to the World Bank data classification, overall national GDP, in nominal terms, more than tripled from US\$240 billion in 2002 to US\$770 billion in 2008, and per-capita GDP from US\$3,700 to 10,900 in the same period (Figure 1).

These achievements also underline a visible convergence with developed countries. For the first time in its modern history, the per capita GDP of Turkey reached more than 25% that of the US and put Turkey into the league of upper MICs. More strikingly, despite that relatively superior growth performance, Turkey's long-term sticky inflation decreased and stabilized at around 10% annually, at a time when global inflation was also on the rise, reflecting not only high global growth but also continuously rising commodity prices in almost all categories (Figure 3).

World Bank, "World Development Indicators." Retrieved from <https://data-bank.worldbank.org/source/world-development-indicators>

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Figure 2. Growth performance in Turkey and selected regions/groups.

World Bank, "World Development Indicators." Retrieved from <https://databank.worldbank.org/source/world-development-indicators>

Figure 3. Growth, inflation, and external deficits in Turkey.

World Bank, "World Development Indicators." Retrieved from <https://databank.worldbank.org/source/world-development-indicators>

Despite surging current account deficits (CAD), the good news was that Turkey was able to maintain fiscal and financial balance (Figures 4 & 5). Fiscal stability in the public and private sectors (household, corporate side, and the financial system) was also under control. Another unusual but good experiences was that high growth associated with improved income distribution. According to the World Bank estimates, Turkey's Gini coefficient (an indicator of income

inequality and wealth) decreased from 0.43 in 2002 to 0.38 in 2008, a significant improvement.[22] Similarly, poverty rates, measuring the proportion of people with per capita GDP consumption of below US\$5.50 per day, also decreased significantly in the same period. The creation of inclusive institutions and the changes in the sources of growth played a decisive role in this improved distributional equity in Turkey.

Figure 4. External deficit in Turkey and similar countries, 1997–2019.

World Bank, "World Development Indicators." Retrieved from <https://databank.worldbank.org/source/world-development-indicators>

In that regard, the rise in TFP and significant technological upgrading in the real economy are noteworthy. According to various calculations, TFP growth during 2002–2006 was between 3.1% and 5.2%.[23] Calculations show that 54–68% of Turkish growth in this period came from improvements in TFP. Acemoglu and Ucer’s reverse projection shows that without TFP growth, Turkish GDP would have grown no more than 3% per annum. These achievements were driven by reform bonuses in the post-2001 crisis era, that addressed the EU membership, alignment with global institutions, and the principles of good governance.

To conclude, Erdoğan—who came into power in 2003 promising to alleviate corruption, repression, and poverty—leveraged the economic rebound and a diplomatic pivot to the West to oversee a decade of prosperity.

Figure 5. Financing of the current account deficit (moving total).

World Bank, “World Development Indicators.” Retrieved from <https://databank.worldbank.org/source/world-development-indicators>

FROM REFORM TO POPULIST AUTHORITARIANISM

Over time, Erdoğan's domestic and global image as a "model reformer and democrat" has shifted markedly towards "the creator of the 21 century populism." Perhaps this is hardly surprising, since, as Cook notes, "Erdoğan is, after all, the man who declared when he was mayor of Istanbul in the 1990s that democracy is 'a vehicle, not a goal,' implying that one could disembark whenever it suited one's purposes." [24] However, on the way to the 2003 elections, Erdoğan promised that he and the co-founders of AKP had abandoned their former political commitment to the Islamist and autarkic and anti-globalist principles of the Millî Görüş and had become true democrats and champions of liberal democracy.

When reminded of his past anti-Western, anti-democracy rhetoric, many critics warned that Erdoğan harbored a secret Islamist agenda when he first assumed power in 2003. Notwithstanding, Erdoğan tried to clarify his earlier remarks cautiously, noting, "essentially, democracy is a tool for human happiness and well-being." Later, he went on to legitimize his transformation as "a process of progress through learning." In a way to further support his pro-democracy change, in one of his speeches at an international conservatism and democracy symposium in 2004, organized by his party, he noted that "top-down social engineering is already passé. Rather than Turkey's path-dependent tutelary democracy under the gendarmerie of the Turkish élite, a real democracy experience where

pluralism, harmony, and tolerance cohabitate, must be established." [25] He also openly refused to follow religion-centered politics. All these consistent efforts introduced Erdoğan to the international community as a respectable reformist leader, similar to any Western European leader, and opened the door for Turkey's final membership negotiations with the EU.

However, the following analysis points out how opportunistic and authoritarian Erdoğan is and the total absence of a consistent body of thought in his political and economic policy-making. [26] A fork in the road was reached in 2007 when the reform coalition from different political traditions Erdoğan had successfully assembled began to come apart. Two significant referendums in 2007 and 2010 on constitutional changes put Turkey on a path to institutional chaos, although this was scarcely seen at the time. Rather contradictorily, on the one hand, these reforms improved the quality of democratic representation and judicial standards. On the other, they helped consolidate Erdoğan's power, allowing him to pivot back to his earlier religious conservatism, which soon showed itself incompatible with modern governance.

Erdoğan's increasingly authoritarian turn can also be blamed on the failure of the establishment to react shrewdly to Erdoğan's transformation. For example, until 2007, the tutelary regime firmly

resisted to delegate the required authority to him that the constitution guaranteed to an elected leader. For instance, bureaucratic elites at the top of the system tried to prevent, stop, or manipulate Erdoğan's appointments to the top-level bureaucracy, such as the Central Bank. The same oligarchic structure turned the presidential election in 2007 into a crisis of insecurity and representation when Erdoğan nominated Abdullah Gül as the ruling party's candidate for the Turkish presidency, which became vacant that year. The establishment balked at this because Gül's wife wears a headscarf, which the secular elite see as an affront to the country's secular values. However, when the AKP took the issue to the country in a snap poll, the party won, and Gül assumed the presidency. The establishment responded in turn, and a case was brought before the Constitutional Court to close the party for "anti-secular activities." When in 2008, the Court ruled by a slim margin of the justices that the AKP could remain open, the battle lines were laid bare. Still, having barely survived this threat to their political existence, Erdoğan and the AKP seemed to lose their reformist zeal and became a party of the status quo.

In Michael Gunter's words, "in some ways, Erdoğan's ongoing struggles and crises remind one of the fevered situations Mao Zedong created during China's Cultural Revolution in which one erstwhile supporter after another was 'revealed' to be an enemy." [27] Like that, Erdoğan and his close cadre, which found themselves under the threat of death or life wars, seem to have

developed a new strategy to change and seize "autonomous institutions and structures completely." As discussed above, when the doctrines, ideological basins, and mental codes that Erdoğan grew up in are taken into account, it is hardly a surprise that Erdoğan is so skeptical of autonomous institutions, the modern division of labor, and the delegation of authority to professionals.

After the near loss of power in 2007–2008 and experiencing of a devastating global economic crisis Erdoğan went on to win a decisive victory in the 2011 elections. In a column I wrote for Project Syndicate in June 2011, soon after Erdoğan's third major election victory, I attempted to explain the root causes of his successes in economic development since 2003. [28] I ended by posing a critical question: how would Erdoğan use his rapidly growing economic and political power? Then, in a post-election ritual that he would become famous for, Erdoğan came out onto the balcony of his party headquarters in Ankara to address the throngs of party supporters below. To the cheering crowds, he promised that "the tyranny of the elites is over." Continuing, the president asserted: "Turkey turned a new page and will no longer be ruled by criminals whose direction has split from God's will and the will of the people," rhetoric that pointed directly to Erdoğan's emerging brand of Islamist, nationalist populism.

In other words, the time has shown that the "real Erdoğan" shine through; clearly, he was practicing "taqiyya," a religious term used in Islam

that legitimizes concealing one's true belief to protect oneself from bodily harm or attack, but throughout time has become a deceptive political tactic. The 2011 elections thus saw Erdoğan's transition from reformer to "inventor of 21st-century populism," as Soner Çağaptay[29] has put it. In my opinion, Erdoğan deserves such a "compliment" not because he is very creative in this regard. Instead, it is because he has learned lessons from the authoritarian populists who have come before him globally and applied them successfully in Turkey. Given the subsequent inconsistency between his apparent religious devotion and his repressive politics, it is worthwhile asking the extent to which his particular interpretation of Islam is "abetting" his brand of Turkish populism.[30]

Although the AKP once held out the promise of a marriage between the rule of law, democracy, and Islam, the party has betrayed this vocation. Having denied the fact that Turkey's positive image both in the Western and Islamic world throughout the 2000s was closely tied to the country's skillful harmonization or amalgamation of democracy, Muslim identity, and economic development in a free-market context, Erdoğan has succeeded in branding Turkey as a nationalist, Islamist, and authoritarian country that makes trouble for its neighbors and is hard to work with. Accordingly, the government has pursued policies that furthered the country's Islamization at the expense of individual freedoms and rights. The post-2011 break with the reformist past is arguably best summarized in a speech by Aziz Babuşcu— then

chair of the AKP's Istanbul branch—to a confidentially selected group of community influencers, civil society leaders, religious leaders, bureaucrats, and business people in 2013.[31] Babuşcu's speech on the intended future course of the Islamicists in power to this "new coalition" of AKP supporters is worth quoting here at length:

Those who supported and cooperated with us [i.e., liberal stakeholders] during the first ten years of government in power will not be our partners in the next ten [i.e., to 2023, the centenary of the Turkish Republic]. That is because the future will be subject to a period of reconstruction, and that era will not be as they [i.e., liberals, modern-secular, Western-oriented people] wish. Considering their ideological stance, we must part ways with our former allies and walk the road much more determinedly and firmly than yesterday. The AKP governments have done a lot on behalf of the 'great silent majority,' living in the periphery during the republican era by transforming the regime. Nevertheless, unless these achievements and the next steps are ingrained in the institutional memory of the state, they may not be consolidated deeply as permanent characteristics and might be quickly reversed. Therefore, the AKP must remain in power for a long time... The 2014 local elections will be the 'fight to the death' as they will mark the turning point in the struggle between the center [i.e., elites, the oligarchy] and the periphery [the "pure people"]. If we can overcome that decisive threshold, achieve success in the next presidential

election, enact constitutional reforms, and win a general election, we will be triumphant. However, should we lose even a percentage point of support in the electorate, dire political consequences will ensue for the AKP, which we cannot countenance.

The entire story since 2011 shows how Erdoğan has quite skillfully alienated and scapegoated his “enemies” in the interests of political survival and achieving the above-mentioned long-term targets. Because of deteriorating economic performance, declining per-capita GDP since 2013, systemic corruption scandals, fragile social peace and integration, the AKP lost its parliamentary majority for the first time in the June 2015 general elections. While a coalition government was undoubtedly possible, Erdoğan rejected this option outright, instead opting to call fresh elections, which were duly scheduled for November.

In the run-up to the November 2015 elections, several high-profile terrorist attacks occurred, contributing to a climate of fear and insecurity, and the general perception was that the government (in the form of the intelligence services) was playing some role in fomenting the chaos. Against this backdrop of insecurity, social anxiety, and uncompromising electoral tactics, it is scarcely surprising that the AKP secured a parliamentary majority in the November poll, allowing it to form a single-party government.

The following year was a true watershed in Turkish history. Late in the evening on July 15, 2016, elements

in the Turkish military launched a coup attempt to topple the AKP-led government. Some Western media reports in the period after the coup pandered to conspiracy theorists, likening the event to the infamous Reichstag Fire in 1933, which Adolf Hitler famously used as a pretext to enact emergency rule and exert complete control over Germany.[32] While the comparison is scarcely credible, Erdoğan himself only fueled speculation with his public assertion that the failed putsch was a “gift from God.” He quickly declared a sweeping three-month state of emergency, which for two years was repeatedly renewed, giving him the power to rule the country by decree, effectively bypassing the duly elected parliament. Since then, Erdoğan has purged more than 150,000 public servants through the presidential decrees without due process, put more than 350,000 people in jail (many of whom have been subject to torture), and upended the lives of millions of citizens just to silence the society.

The most significant step in the evolution of Erdoğan’s populism to authoritarianism was abolishing the parliamentary system and replacing it with an executive presidential system in 2018. In arguing for the concentration of executive power in the hands of the presidency — something not even advocated by Turkey’s first president and the “founding father” of the republic, Mustafa Kemal Atatürk—Erdoğan skillfully blended nationalism and the state’s official ideology with the orthodox interpretation of Islamic religion. Moreover, he claimed that uniting authority in one administrative

structure would speed decision-making and allow for better policy-making for the Turkish people.

The AKP put its proposal for an executive to the people in an free but unfair, non-transparent constitutional referendum in April 2017, and the changes were approved by a narrow majority of the voters (51.41%). The shift hammered the last nail into the coffin of the democratic, secular Turkish state. It transformed the country from a parliamentary to a presidential system that concentrated significant powers in the hands of a directly elected president. As a recent European Commission report[33] evaluates,

“the constitutional architecture continued centralizing powers at the level of the Presidency without ensuring a sound and effective separation of powers between the executive, legislative, and the judiciary. In the absence of an effective checks and balances mechanism, the democratic accountability of the executive branch remains limited to

elections.”

Erdoğan’s presidential system was sealed at the 2018 elections when he was returned with 52.5% of the vote. However, according to observers, the poll was plagued with serious irregularities and malpractice on the part of the governing parties.

Against this backdrop, Babuşcu’s speech in 2013, mentioned earlier, seems very prescient in laying out the mentality of the AKP’s central authority. The anticipated “period of reconstruction”—effectively underway since the “judicial reform” in 2010 and the AKP’s success in the 2011 general elections—accelerated considerably after 2018. Signs of the post-2018 order were seen during the Gezi Park protests and the massive corruption operations on December 17–25, 2013, after which Erdoğan parted ways with liberals and the AKP’s erstwhile allies in the faith-based Gülen movement.[34] It is also notable that by 2015, the peace process with the Kurds the so-called “Kurdish Spring”—had come to a grinding halt.

Figure 6. Countries with the most authoritarian tendencies.

World Bank, "Worldwide Governance Indicators: 1996-2020." Retrieved from <https://info.worldbank.org/governance/wgi/>; International Institute for Democracy and Electoral Assistance (IDEA), "The Global State of Democracy Indices," 20021. Retrieved from https://www.idea.int/gsod/sites/default/files/2021-11/the-global-state-of-democracy-2021_0.pdf

As Figures 6, 7, and 8 summarize, under his "one-man rule," Erdoğan's populism has evolved into full-blown authoritarianism, and Turkey has fallen further into repression and violence. Since the constitutional referendum and 2018 presidential election, in the absence of robust checks and balances, an unaccountable president has controlled all executive authority, set of economic and foreign policy, through his sweeping appointment

powers, Erdoğan has already massively expanded executive power, reduced political pluralism, and removed de jure and de facto constraints on political discretion.

According to the World Press Freedom Index report by Reporters Without Borders, Turkey ranks 154 out of 180 countries in terms of press freedom, behind even Venezuela, Honduras, Brunei, Bangladesh, and the Democratic Republic of Congo.

Figure 7. Trends in governance quality in Turkey.

World Bank, "Worldwide Governance Indicators: 1996-2020." Retrieved from <https://info.worldbank.org/governance/wgi/>; International Institute for Democracy and Electoral Assistance (IDEA), "The Global State of Democracy Indices," 2021. Retrieved from https://www.idea.int/gsod/sites/default/files/2021-11/the-global-state-of-democracy-2021_0.pdf

Moreover, the Cato Institute's 2020 Human Freedom Index puts Turkey 125th out of 162 countries for personal freedom. In its Economic Freedom Rankings, Cato notes Turkey has fallen from 67th to 99th since 2008.[37] Additionally, in V-Dem's 2019 Academic Freedom Index, Turkey ranks 135 out of 144 countries, ranking lower even than China. Finally, the World Justice Project (WJP), in its Rule of Law Index 2020 report, ranks Turkey 107 out of 128 countries, behind Niger, Mexico, Madagascar, Mali, and Kenya.

As a part of his "divide and rule" strategy, Erdoğan's exclusive and majoritarian-oriented governance has deeply polarized society into two opposing camps and thus jeopardized social peace. As Figure 7-8 show, Turkey has become a hybrid regime and exhibits a dramatic decline in democratic values and governance. As a result, the Freedom House put Turkey in the "not free" category in its most recent report on civil liberties and political rights.

Figure 7. Trends in governance quality in Turkey.

World Bank, "Worldwide Governance Indicators: 1996-2020." Retrieved from <https://info.worldbank.org/governance/wgi/>; International Institute for Democracy and Electoral Assistance (IDEA), "The Global State of Democracy Indices," 2021. Retrieved from https://www.idea.int/gsod/sites/default/files/2021-11/the-global-state-of-democracy-2021_0.pdf

Erdoğan began his career in power in 2004 by organizing an international democracy symposium with a reformist identity and drawing attention to himself. However, after his full-blown authoritarian turn, he has studiously avoided championing democracy on the international stage. Turkey's populist-authoritarian turn has also had far-reaching consequences for Turkey's international relations. Relations with the United States have rapidly deteriorated, Turkey's

EU accession negotiations have stalled, and its bilateral relations with several individual EU member states have worsened. For example, Erdoğan failed to attend the summit for democracy organized by US President Joe Biden in February 2021, who declared in his speech opening the summit that "democracy does not happen by accident. We have to defend it, fight for it, strengthen it, renew it."

THE ECONOMIC CONSEQUENCES OF POPULISM FRAGILE GROWTH

As mentioned, Turkey's economy performed relatively well in the first period of the AKP government in 2003–2007. Nevertheless, the seeds of later problems were sewn by the government in that period. Indeed, despite its relative success, toward the end of the period, the economy showed signs of overheating. First, growth began to decline from its peak of 9.4% in 2004–2005, falling to 6.9% in 2006, 5% in 2007, and a meager 0.8% in 2008 (Figure 2-3). Second, after stabilizing in the early 2000s, the current account deficit began to rise to unprecedented and unsustainable levels (Figures 3 and 4).

In addition, reform fatigue set in, with the AKP government convinced that it had worked an economic miracle. This perception became entrenched when “home-grown” policy responses to the 2008–09 Great Recession proved highly effective. As a chief economic advisor to a business association in 2008, I was also personally involved in developing Turkey's response in the form of “emergency proposals” to head off the crisis. Our proposals focused on prioritizing targeted policy interventions and government funding of small and medium-sized enterprises (SMEs), labor training, and employment supports in crucial areas, unlike the Turkish corporate sector and the trade associations, which counseled a rapid austerity program under the auspices of the IMF to attract sufficient liquidity. The “home-grown” proposals we

proposed required no additional external resources.

The government — in our view wisely — implemented our proposed measures, although the Turkish economy did see significant falls in economic growth, as did all economies during the crisis. However, the relative success of the short-term emergency measures gave Erdoğan the entirely wrong message and instilled in him a dangerous self-confidence that he could simply “invent unorthodox/heterodox tool kits” superior to mainstream economics at will. The short-term emergency measures we proposed were precisely that—emergency measures. They had to be followed by a subsequent round of more far-reaching microeconomic reforms, which would help Turkey return to a sustainable growth path in the long term, positively decouple from other EMEs, successfully graduate from the middle-income trap (MIT), and therefore, continue its recent convergence to the developed countries. To that end, in 2010, I submitted an additional report on the needed reforms. Nevertheless, rather than implementing the proposed reform measures, Erdoğan took quite the opposite direction.

After 2010, Turkey's EU accession process ground to a halt, and the country lost one of its critical anchors of economic and institutional reform (the other being the IMF and the WB). This only exacerbated reform fatigue and an erosion of

good governance, which had been secured only after long, costly, and painful reforms after the 2001 crisis. Thus, by 2010, an institutional vacuum had opened up.

Instead of institutional reform, Erdoğan's regime resorted to crony capitalism, AKP-led clientelism, and a renewed commitment to dirigisme and contingency policy-making, undermining the hard-fought establishment of a free and open, transparent, accountable, rule-based, and competitive economy. Seemingly "winning" against all manner of crises after 2007, Erdoğan felt emboldened to double down on his commitment to creating a so-called "native and national" regime. Accordingly, he increased control over the regulatory agencies, impairing their autonomy through several de facto or de jure changes. Figures 6 and 8 summarize the World Bank's assessment of changes in various dimensions of Turkish economic institutions since 2000. The indices of voice and accountability, government effectiveness, the rule of law, and control of corruption, which all improved during the AKP's first period, have been drastically reversed, leaving Turkey well behind its EME peers.

In our view, the "root cause" of the economic problem in Turkey is the ever-rising need to finance growth in unsustainable ways, in the absence of structural reforms and transformation of the economy through market-friendly strategies with a long-term vision. Tragically, instead of completing these needed reforms, Erdoğan has reversed what hard-won gains had been achieved, undermining institutional structures and replacing merit-based appointments and professional rationality in public administration with rank clientelism.

What we now see is a vicious cycle of three reinforcing dynamics that threaten to severely cripple the Turkish economy and wipe away all the welfare and income gains of the past few decades:

1. Unsustainable growth, financed through debt and monetization, which fuels rampant inflation;
2. Corresponding high rates of interest that crowd-out real private investment and therefore depress TFP in the longer term, and;
3. An inevitable currency shock that continues to threaten livelihoods and the stability of the entire Turkish economy.

GROWTH WITHOUT WEALTH CREATION

As discussed before, unlike the so-called “golden age” of growth in the early 2000s, when income distribution improved and poverty levels decreased significantly, the recent Gini Index shows (Figure 9) that inequality has started to rise since 2011 and accelerated since 2013, wiping out the gains made in the previous period. The coefficient now stands at 43, an indictment of the government’s performance (Figure 9). The reversal has been caused by a large number of factors, most of which have been induced by reckless government policy, including slower economic growth, rising unemployment, wage repression (mainly due to emergency measures), a failure to invest in

workforce training and skills, an influx of Syrian refugees numbering in the millions, the COVID-19 pandemic, and foreign currency shocks that have driven up prices of everyday commodities and the cost of living of the poorest households. Erdoğan has supported firms’ efforts to suppress collective bargaining through presidential decrees, meaning wages and salaries have not kept up with inflation. The major victims have been construction workers, followed by manufacturing and trade and services workers. Finally, the labor share of national income has fallen from almost 37% in early 2019 to just below 33% as of mid-2021.

Figure 9. Income inequality (selected countries).

Source: OECD Economic Surveys: Turkey 2021.

Quite paradoxically, this strategy of suppressing wages is undermined by the government's own populism, which is hostage to quite short electoral cycles. Thanks to election pressures, wages have been allowed to chase past inflation losses, leading after some time into a wage-inflation spiral. Still, inflation is winning. While the minimum wage increased by 21.56% in 2021, the official inflation rate reached 36%, and 49% in January 2022 (alternative statistics suggest the real rate is more than twice those). In December 2021, the government announced another minimum wage increase of 50% for 2022. Since

minimum wage increases are taken as a reference, a similar increase in the salaries of civil servants and retirees is inevitable under elections pressures. Likewise, general wages other than minimum wages will be subject to a similar alignment. Considering exchange rate effects, production, and inflationary rigidities throughout the economy, and the underlying inflationary spiral already in train, "wage increases for 2022 could also reverse the recent improvement in the current account (forecast to halve to 2.5% of GDP in 2021) and increase in external financing pressures."

Figure 10. Total external national debt (selected countries).

World Bank, "World Development Indicators." Retrieved from <https://databank.worldbank.org/source/world-development-indicators>

Ultimately, economic stability in Turkey cannot be achieved without fundamental reforms to address market rigidities and build long-term productive capacity. Due to resource constraints, any level of economic growth above 5% triggers deterioration in the macro-prudential framework, with ballooning external deficits, rising national debt, and foreign exchange shocks. This problem is hardly new. For many decades, governments have failed to address the underlying issues, leading to seemingly endless “boom and bust” cycles, the 2001 crisis being arguably the worst. However, the situation has deteriorated severely since 2018.

First, there has been a marked decline in “greenfield” FDI (Figure 5) and short-term portfolio investments, which have financed Turkey’s growth in the past. FDI flows (excluding real estate), which increased from almost zero in the early 2000s to 3% of GDP during 2006–2007, have fallen precipitously and stood at just US \$5.8 billion in 2020, compared with a peak of more than US\$19 billion in 2007.

Second, in a way to substitute dried foreign sources, there has been a dramatic expansion in consumer credit, largely substituting long-term investment in fueling growth. The World Bank data shows that during the presidential era, the external national debt has reached almost US\$450 billion dollars, exceeding 62% of GDP (Figure 10) as of mid-2021. As a result, Turkey’s overall debt to GDP ratio rose from less than 30% in 2006 to above 62% in 2021, a worrying 70 % increase, and thus has become a significant source of instability,

triggering currency shocks combined with other instabilities and policy inconsistency.[41]

Furthermore, currency composition and the rate of depreciation of the Turkish Lira vs. the US dollar are other sources of economic instability and is primarily driven by clientelist public-private partnership model that the AKP has built up as part of its crony capitalism. Meanwhile, the currency share of central government debt has grown from 39% in 2017 to 60 % in October 2021, chiefly driven by the lira depreciation. Finally, a significant part of the corporate foreign debt has been shifted to the public sector, reaching 60% of the total debt as of October 2021, up from 39% in 2017.

Not surprisingly, this level and structure of national debt has put Turkey at the top among its peer developing countries and triggered a severe currency shock. Turkey’s experience in the recent decades shows that multiple large currency devaluations could be ripe for some type of external debt crisis as well. Reflecting that fact, the costs of insuring Turkish debt against credit default (CDS), a financial instrument permitting investors to “swap” or offset their credit risk with that of another investor, nearly tripled to 600 basis points at the end of 2021 (Figure 11). Analyzing a sample of 25 EMEs, a recent report from Wells Fargo puts Turkey amongst the most vulnerable countries that includes Argentina, Chile, Indonesia, Turkey, and Venezuela

Figure 11. Risk premium in Turkey and similar countries.

OECD, OECD Economic Outlook, 2021. Statistics and Projections (database) and Main Economic Indicators (database).

THE ASSAULT ON AUTONOMOUS INSTITUTIONS AND THE INFLATIONARY ILLUSION

As discussed above, populist leaders do not favor delegation of responsibilities to professional and autonomous institutions through expertise and merit-based division of labor. Worse still, populists attack and discredit professional and autonomous supervisory or regulation institutions and destabilize them, often using them as scapegoats for poor policy. However, empirical studies show quite the opposite.[43] For instance, central bank independence is indispensable to combat inflation and establish price stability as it helps prevent the kinds of discretionary, arbitrary, and contingent policies populists are known for.

Price stability (or the lack thereof) has been a perennial problem in Turkey. It increased steadily after the 1980 military coup and liberalization measures in the 1980s, reaching 50.7% on average between 1980 and 1989. Then, it spiraled out of control and reached an average of 72% in the 1990s, eventually triggering a severe economic crisis in 2001.[44] From the longer-term perspective, the gist of the problem is that over time, inflation has somehow become “baked in” to Turkish economic management (including to inflate budget coffers), which is reflected in pricing behavior and the overall sense that it is just something that will always be a feature of the Turkish macroeconomic landscape.

This supposedly changed with the post-2001 crisis reforms under

the auspices of the IMF and the World Bank. Specifically, the reforms established the needed autonomy for the Central Bank of Turkey (CBRT), made price stability its foremost legal responsibility, and prevented using its reserves as a source of funding for the state treasury. Granting legal independence to the CBRT was a turning point within the state structure as it aimed at the institutionalization of an anti-inflationary approach to macro-economic policy.[45] However, during the presidential era, these hard-won gains have been radically reversed, and the interventions on the autonomous institutions such as the CBRT, the national statistical institute of Turkey (TURKSTAT), the competition board, and the court of auditing (Sayıştay) have been highly disruptive. Finally, the government’s use of inflation as a source of finance and indirect taxation has returned, and, therefore, the situation has spun out of control, with inflation driving the overall macroeconomic fragility. According to TURKSTAT data, since 2018, when the presidential system was inaugurated, consumer inflation climbed from 44% to 92%, whereas food inflation from 55 % to 111%, in cumulative terms.

Besides low TFP and supply-chain challenges during the COVID-19 pandemic, inflation in Turkey has been exacerbated by reckless expansionary monetary policies such as credit and money supply expansion. Expanding the money supply to boost growth has once again come to the fore. The

stated goal has been to ensure liquidity in the financial system and help firms manage the pandemic-related shock with targeted liquidity facilities. In addition, the primary dealer banks have been allowed to sell domestic debt securities purchased from the Unemployment Insurance Fund to the CBRT for a temporary period. As a result, the supply of money in the narrow category of M1 has increased by 231% in the last three years. This level of monetary expansion stood out among all the EMEs except for Argentina, and, in turn, triggered an exchange rate pass-through effect and uncertainty-driven negative expectations.

The loosening of monetary policy has left the country as an outlier. For example, the US Federal Reserve is preparing to tighten monetary policy in 2022. Unlike Turkey, the major

EMEs like Russia, Brazil, South Africa, Poland, and Mexico have gradually raised policy rates amid inflation pressures. With consumer inflation standing at 36%^[46] and producer inflation at 80% at the end of 2021, and further climbed to 49 % and 94 % respectively in January 2022, Turkey's rates do not even compare to average inflation rates in other (medium or upper) MICs or EMEs, where inflation fluctuates within the 5–7% range annually (Figure 12). Nevertheless, the government and the CBRT continue to hue to an official annual inflation target of 5%, the benchmark set in 2005 but never actually reached. Neither the self-fulfilling prophecies of President Erdoğan, such as his eccentric “interest rate theory,” nor his pliant CBRT or the TURKSTAT, have any credibility.

Figure 12. Inflation in Turkey and similar countries and income groups.

World Bank, “World Development Indicators.” Retrieved from <https://databank.worldbank.org/source/world-development-indicators>

The most traumatic issue is the government's denial of the proven transmission mechanism between rising inflation, the necessary interest rate adjustment, and the money illusion that comes with the rise in nominal income due to wage adjustment. Among others, lowering policy rates into profoundly negative territory caused foreign exchange (FX) denominated deposits in the banking system to increase to 63% of GDP in December 2021. In that process, foreign investors have been fleeing the Turkish market in all categories.

In turn, administered low interest rates, the increase in the volume of money emissions to partly compensate the FX shortage, and the challenging of subsidized credits through a credit-rationing mechanism to the most favored corrupt insiders

have not only seen inflation spiral out of control but also caused demand for FX to increase rather than triggering investments in an environment of increased uncertainty and narrowed decision-making horizons.

In the final analysis, the vicious circle between “deficit and debt driving financing-interest rate-inflation adjustment, and currency schok” reflecting Turkey's chronic structural problems in its modern history has fully returned. While the credit rating agencies have constantly lowered the country's credit ratings, some global investment banks have even decided not to share their information notes and investment recommendations regarding the Turkish lira because of its recent “free fall.”

Figure 13. Effective real real exchange rate in Turkey and similar countries.

OECD, OECD Economic Outlook, 2021. Statistics and Projections (database) and Main Economic Indicators (database).

As a result, Turkey's rating on the CPI-based, real effective exchange rate (RER) index reached a historical low of 50 at the end of 2021 (Figure 13). However, as experience confirms, structural problems that prevent trade from growing and deficits closing mean an RER of this level does not guarantee the country's overall competitiveness will improve.[47] Indeed, as the famed international economist, Rudiger Dornbusch once noted, "currency crises take longer to occur than you might have thought. However, when they do occur, they do so at a very much faster rate than you would have thought possible." [48]

We can conclude this section

by drawing attention to Dani Rodrik's recent discussion of the role played by heterodox alternative policies in challenging orthodox, conventional policies in economics. He notes that economics is not a science like physics with its "immutable" laws but a set of principles that require constant testing. Thus, "trial and error" and "learning by doing" in economics are often required. However, this does not mean known cause-effect relationships in scientific methods and theoretical consistency can simply be discarded, whereby the field of economy cedes ground to a political mysticism that works on the basis of "let's just try this and see if it works." Erdoğan's so-called heterodox approaches or "experiments" fall under the category of "milking the bull."

BACK TO THE MIDDLE-INCOME TRAP UNDER ERDOĞAN'S AUTHORITARIANISM

As discussed before, thanks to a favorable set of external economic circumstances until the Great Recession in 2009, many EMEs—including Turkey—achieved unprecedented convergence in terms of their per-capita GDP to developed economies. Nevertheless, the 2008–09 crisis brought new challenges, such as stagnating global finance and trade flows, putting the future course of their development in doubt.

The post-2009 turbulence in EMEs has again returned analysts' attention to the challenges many developing countries face in escaping the so-called Middle-Income Trap (MIT). Coined by the World Bank in 2006, the term refers to the challenge faced by countries once they reach a certain level of economic development in which their cost-competitiveness in traditional labor-intensive industries begins to deteriorate (as wages rise) without a commensurate improvement in their quality-competitiveness in high-value sectors (such as technology or advanced manufacturing) on a par with the developed countries. The main drivers of the MIT are weak human capital, reliance on low-quality exports, low TFP, urban agglomeration that favors low-tech, labor-intensive production, and poor-quality governance institutions. Getting out of the “trap” requires fundamental reform, but this is difficult due to the aforementioned dilemma in which reform coalitions are hard to sustain

since the costs are high in the short term, but the rewards accrue only at the end of a successful transition.[50]

Turkey is a textbook case of a country caught in the MIT. After the aforementioned reforms after the 2001 crisis, the country's per capita GDP increased from US\$4,000 in 2003 to \$12,500 in 2013, and the country saw an (albeit modest) income convergence. As a result, it became an upper-MIC.[51] Had Turkey maintained that performance, it likely would have reached the goal of becoming a high-income country with an official target of US\$25,000 per capita income by 2023.

This will not happen, reflecting the aforementioned reform fatigue and the post-2011 populist-authoritarian turn. The bitter harvest of Erdoğan's misguided policies is clear for all to see, with economic indicators regressing to 2003 levels (the year he became prime minister) and human rights and rule-of-law indicators regressing to levels not seen since the 1990s.

Indeed, in 2015, I predicted that Turkey's growth potential over the upcoming decade would fall to below 4%, pulling Turkey back into its chronic MIT.[52] Indeed, much as I predicted, Turkey's average annual growth rate declined to 3.2% between 2012 and 2020 (Figure 2-3). Although the MIT literature suggests that such a growth performance would be sufficient for a

country like Turkey to escape the trap, the prolonged economic turbulence and currency shocks from 2018 through to the present have clearly wreaked real damage. For example, Turkey's per capita income, which went up to \$12500 in 2013, declined uninterruptedly for the next seven years, falling to \$8500 in 2020.

Moreover, currency crises are a staple for MIT countries such as Turkey since the trap implies a heavy dependency on imports and external financing, the accumulation of unsustainable foreign debt, and stagnation in overall macroeconomic indicators. As it has been at many points in its economic history, Turkey is again confronted by the perils and the promise of a weaker currency, with the prospect of an export-led

recovery, but only if the policy settings were lined up correctly. As Erduman and colleagues have rightly noted,

“by implementing structural reforms Turkey can benefit from foreign trade by improving local input content of production; improving price stability through restraining the exchange rate pass-through to domestic prices, and better managing financial stability through reducing external financing in the medium term.”[53]

A recent OECD Economic Survey on Turkey makes the same observation: “A package of reforms could lift Turkey's GDP per capita level by more than 10% over ten years compared to a scenario with no policy changes.”

PANDEMIC POPULISM AND FURTHER DISRUPTION TO THE ECONOMY

Against a backdrop of the currency crisis and macroeconomic instability in train since at least 2018, the arrival of the COVID-19 pandemic in late 2019 has dealt a body blow to the already weak Turkish economy. In the context of populism in Turkey and elsewhere, the key issues are the lack of transparency, rationality, and scientific grounding in the government's approach to the quality and sustainability of its response to the pandemic. Unfortunately, albeit not surprisingly, the AKP government's pandemic policy, active measures, and support of affected sectors have been inconsistent, incompetent, disrespectful to science and expertise,

arbitrary, and driven by ideology and the need to placate cronies.

The fundamental issues can be summarized as follows. First, the timing of both lockdown and normalization decisions has been poor. The government adopted multiple containment measures relatively late (March 11, 2020) to address the pandemic, but they were lifted far too quickly (May 4, 2020). Following the second wave of infections, containment measures were reintroduced in September and tightened again in late-2020. Lockdown measures included mandatory masks in

public areas, stay-at-home orders, curfews, closures, or limited hours for retail shops, closing pre-schools, and restricting gatherings. Once again, after a gradual reopening in early March 2021, following the third wave of infections, restrictions were tightened again, and a complete “lockdown” was announced in late-April 2021, extending into May. Finally, the government announced a phased return to normal in mid-May and June 2021.

Second, active policy has been inconsistent and ineffective. Adding insult to injury, the incompetence of the government’s handling (poor governance, severe working conditions for healthcare workers, low wages, the discrediting of scientists and their recommendations) has accelerated an ongoing and severe brain drain from Turkey. By 2020, almost 5,000 medical doctors had left Turkey in cumulative terms and almost 8,000 have resigned due to the mentioned negative factors.[55]

As for the vaccine, the initially favored Chinese vaccine (SINOVAC) was not only ineffective, but there was also an appalling lack of transparency around the costs and how the acquisition and distribution tenders were allocated. Moreover, Turkey’s vaccine drive was both late and showed far too much tolerance for vaccine opponents, with government officials legitimizing resistance to the vaccine in a country where people are already given to conspiracy theories, denying facts, excessive risk-taking. Most egregiously, as he has always done, Erdoğan encouraged supporters to congregate in public

settings at the opening ceremonies for new mosques and other high-profile infrastructure projects, as well as funeral gatherings and party congresses, sacrificing public safety for populist mobilization.

Third, and most damaging, there has been a lack of transparency and loss of trust and social integrity. The meager COVID-19-related death rate became a source of controversy in the highly polarized domestic environment and abroad. The sharp discrepancies in the number of COVID-19-related deaths reported by TURKSTAT and the Turkish Health Ministry versus independent accounting have been telling. For instance, in mid-2021, the Ministry of Health announced that the number of COVID-19 infections in Turkey in the 18 months since the first outbreak in March 2020 exceeded 6 million, with 53,000 deaths. However, alternative research has found the actual death toll more than twice the official figures. For example, Onur Başer, a professor at MEF University, told DW Turkey of his findings that the actual number of COVID-19 deaths between March 17, 2020, and August 1, 2021, was closer to 112,000.[56]

There is much anecdotal evidence of political pressure on officials to underreport deaths, and the 2021 death count of 83,000 is likely a significant underestimate. [57] According to a statement by the Turkish Medical Association (TTB), the World Health Organization (WHO) has criticized Turkey for not properly announcing the death toll because of Turkey’s method of reporting coronavirus deaths actually

underreports real numbers.[58]

In terms of fiscal support since the pandemic began, the IMF estimated that between January 2020 and April 2021, total support worldwide has risen to nearly US\$16 trillion or 19% of world GDP. That amount comprises around US\$9.9 trillion in additional spending and foregone revenue and US\$6.1 trillion in liquidity support (e.g., for public equity injections, loans, asset purchases, debt assumptions, and state guarantees).[59] Turkey spent below the world average, with support amounting to some 12–13 % of GDP, and the measures were not directed effectively or efficiently. Only 2.5% provided in terms of direct supports, and the rest were mainly in the form of contingent liabilities. Rather strikingly, Erdoğan announced a national donation campaign to provide funds to fight against the COVID-19 pandemic.

The problem regarding the pandemic supports in Turkey is that the country entered the pandemic without completely eradicating the deep wounds of the 2018 economic crisis, which was triggered by domestic and international political tension. The main challenges were the recurrent chronic external deficits, inflation, heavy debt burden, and currency shock. During the pandemic, the measures taken to resume the economy left no more room for maneuvers on monetary and fiscal fronts. Lockdown measures during the first three months of the pandemic led to a significant decrease in labor force participation, and the unemployment rate within the non-agricultural sector increased

from 11.8% in January 2018 to 14.7% in September 2020.[60] With awareness of the high amounts of debt accrued, mainly by public enterprises, and the growing rate of bad loans risking bankruptcy, the government announced the most comprehensive debt restructuring package in recent history in October 2020. Although the need for an influx of foreign capital to boost economic growth and credit expansion was obvious, it has not happened for the reasons explained before. The fiscal management and policies presented in detail above caused inflation to skyrocket and the national debt burden to accumulate further; finally, that process resulted in a sharp currency shock.

As Ümit Özlale has noted in a recent article in *Foreign Policy*, before and during the pandemic, the lion's share of public resources went to Erdoğan's cronies.[61] These funds have been dispersed via tax amnesties, direct supports, subsidized credits, or corrupt infrastructure projects. All these events resulted in the deterioration of income distribution and an increase in poverty and hunger. Pandemic statistics convincingly recommend that, in Turkey, populism displayed in both the 2018 economic meltdown and the pandemic environment increased the cost of the crisis compared to non-populist countries.

CONCLUSION

Turkey's Erdoğan provides a textbook case of how a populist performs in opposition and in power. This article proposes six lessons.

The first lesson is his successful instrumentalization of populism as a tool of diplomacy in Turkey's foreign politics. The rise of the multipolar world and the emerging hybrid global conjuncture have allowed him to leverage alternative rules and norms. Even though Turkey is in the European periphery, it has increasingly challenged the supremacy of the liberal rules-based multilateral order and started to undermine its normative foundation. The support by outsiders, such as Russia, China, and some oil-rich regional countries, has also enabled Turkey to maneuver in international geopolitics.

Second, reflecting his distrust of local and global institutions, Erdoğan has adopted an informal deliberation, which occurs through the interaction between strongmen regimes, lacking transparency and accountability. Such a transactional or give-and-take—what he calls a “win-win” approach—foregrounding decision-making pattern through individualized interaction between influential leaders of critical countries weakened multilateral governance institutions outside and created a further democratic deficit inside.

Third, like all other populists, he initially pretended to be a conscientious and reformist leader although offering easy and fast

solutions to chronic problems such as poverty, corruption, and repression. However, starting from 2007, he has maneuvered deftly to exploit political opportunities and, even worse, provoked many fault lines, exploited sensitive cultural, religious, and nationalistic touchpoints to “divide and rule.”

Fourth, depending on the situation, he has instrumentalized the deficiencies of mainstream hyper-globalization and created scapegoats and enemies inside and outside to overhaul and transform the existing governance mechanism under the slogan of rejecting an irrelevant “one-size-fits-all” model that comes with liberal globalization. Instead, he promulgated a never-tested bizarre indigenous model, what he prefers to call “native and national model,” symbolizing his former Millî Görüş ideology. He has abandoned the reform agenda and gone away from the EU membership negotiations using such excuses.

Before and after the presidential system, Erdoğan changed and rewrote the rule of the game that brought him to power. In such a hybrid and contingency system, the same rules apply differently to the incumbent administration, “more equal among equals,” and “the others,” by far the great silent majority. Parallel to the rising economic and political challenges inside and outside, Erdoğan's emphasis has shifted from the sovereignty of the people, which is executed through free and

fair elections to a seemingly free but virtually unfair election, if not directly “open vote, secret count.” As the last local elections in Istanbul 2018 showed, Erdoğan is preparing to re-run elections until he wins. Erdoğan uses the well-known appeals of all authoritarians that “enemies are sabotaging the country,” and “we are fighting a new war of liberation,” and therefore, “we cannot leave the country’s fate to the treasonous opposition.” In conclusion, by making it clear that he no longer intends to leave power, Erdoğan has shown that the inevitable end of populism is authoritarianism.

Fifth, besides politics, he has employed unusual policies (i.e., so-called heterodox policies like using extra-budgetary resources and linking high inflation to high interest rates) in economics through paternalism and kleptocracy. That regime allowed Erdoğan and his business oligarchs to become rich and powerful through corrupt activities such as stealing from society but distributing some to the electorate in return for the vote.

Sixth, Erdoğan’s discrediting of science, expertise, and autonomous professional institutions and ignoring resource constraints promoted fast growth through expansionary monetary and fiscal policies and resource transfer to the politically favored segments of the society. The result has been rampant inflation, domestic and external deficits, resulting in unsustainable national debt, leaving Turkey at the top of the list of most fragile countries and triggering a deep currency crisis.

The more Erdoğan’s imperial presidency, which places all power in the hands of a single man, gives priority to emotion over reason, conflict over compromise, and polarization and division over unity, the busier he becomes attacking imaginary enemies, reducing the parliament to a rubber stamp, and leaving an entire state captive to his whims and temper. After 20 years under his rule, Turkey had returned to the same vicious circle it was in at the start of his tenure, when the EU described it as “too big, too poor, and too unstable.”

Rather than having a “strong man,” Turkey should solve its chronic problems by discovering and implementing the right institutional mixture, policies, and culture under credible leadership.

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