



**KENNESAW STATE
UNIVERSITY**

COLES COLLEGE OF BUSINESS
*Bagwell Center for the Study of Markets
and Economic Opportunity*

Commentary

Title:

*"Vj g'Kō rcev'qh'Cwj qtkxtkcp"
Ucvg'Ecrkxrkuo "qp'Geqpqo ke"
Ht ggf qo 'kp'VÃtnk g\$*

Author(s):

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*“He is a weak ruler who needs religion to uphold his government;
it is as if he would catch his people in a trap.”*
— Mustafa Kemal Atatürk

In recent years, Türkiye’s¹ political and economic landscape has undergone a significant transformation. This transformation marks a shift away from “Western neoliberalism” and towards a system increasingly characterized by “authoritarian state capitalism.”

Prior to the rise of power of the Justice and Development Party (hereafter, the AK Party) in 2002, Türkiye existed as a flawed democracy, grappling with issues like military influence, ethnic discrimination, and suppression of certain religious groups. While democratic institutions enjoyed some trust from the public, concerns persisted. Under the leadership of Recep Tayyip Erdogan (co-founder of the AK Party and President of the country since 2014), the AK Party embarked on a path of consolidating power, culminating in the transformation of the political system from a parliamentary democracy to a presidential one. Türkiye is constitutionally “secular,” but the AK Party has pursued an “Islamist” agenda and eroded democracy.

Following a failed coup attempt in 2016, a period of profound distrust towards the West emerged in Türkiye. This sentiment coincided with the rise of alternative economic models and a changing global order, leading Türkiye to shift its political and economic alliances towards the East, particularly the Shanghai Five nations led by China and Russia, non-Western “great powers.”² This move away from the West and its embrace of “authoritarian state capitalism” as practiced by the BRICS nations has caused considerable concern among Western powers. As the legitimacy crisis of “Western neoliberalism” makes it less desirable for many countries, Türkiye has diverged from neoliberalism and liberal democracy and moved toward state capitalism and authoritarianism.

In conjunction with the political shift, Türkiye’s economic policies have also undergone significant changes. The country has moved away from “rule-based economic policies” and embraced increased state intervention, leading towards a form of “crony capitalism.” Even though crony capitalism is not an Erdogan’s invention, it has nevertheless acquired a whole new scale, thanks to the sheer size of public mega projects during the AK Party era. Public procurement has become a key tool for the AK Party government to ensure electoral success, create loyal elites, and fund the ruling party. Notably, the construction and service sectors have seen widespread use of public procurement for ‘rent-seeking’ activities.

The AK Party’s government influence extends beyond traditional economic levers. The executive branch has increasingly utilized “authoritarian financialization” tactics, employing moral suasion³ and even nationalizing private banks to control the domestic circuit of credit.⁴ This “financial vertical” blends formal and informal instruments, allowing the government to exert significant influence over the entire financial system, from the Central Bank down to retail banks. While some argue for the persistence of neoliberal elements in Türkiye’s political economy under the AK Party government, a more nuanced analysis reveals that authoritarian state capitalist practices hold significantly greater influence in shaping the country’s current economic landscape

¹ The Republic of Türkiye changed its official name from The Republic of Turkey on May 26, 2022 in a request submitted to the Secretary-General by the country’s Minister of Foreign Affairs.

² Soon after, despite being a NATO member, Türkiye signed a deal with Russia to buy the S-400 air defense missile system.

³ Moral suasion is to attempt to convince individuals to behave in a certain manner because doing so is the right thing to do.

⁴ See: <https://developingeconomics.org/2023/09/12/financial-statecraft-and-its-limits-in-the-semi-periphery/>.

or, as Erol puts it, “the recent economic turmoil in Türkiye since the summer of 2018 is somewhat resultant of these state capitalist practices, not of neoliberalism *per se*.”⁵

While some neoliberal elements exist, authoritarian state capitalist practices are more prominent in shaping the late political economy under the AK Party government. An idealized image of Western free-market capitalism, where the liberal democratic state does not interfere with the economy (or this intervention is quite limited), is portrayed in contrast to the authoritarian state capitalism, which is characterized by the state’s heavy economic intervention, “strongman regimes,” and “weak checks and balances.” Less democratic regimes/authoritarian regimes might achieve “short-term economic growth”; however, the long-term sustainability of such growth can be debatable.

As measured by The Heritage Foundation,⁶ economic freedom depends upon four main pillars: (1) the rule of law (i.e., property rights, government integrity, judicial effectiveness), (2) government size (i.e., tax burden, government spending, fiscal health), (3) regulatory efficiency (i.e., business freedom, labor freedom, monetary freedom), and (4) open markets (i.e., trade freedom, investment freedom, financial freedom). A lack of economic freedom, along with limited checks and balances, will likely lead to discrepancies and vulnerabilities in the economy. Consequently, government officials need to be more effective in combating corruption.

Even though property rights are moderately well protected in Türkiye, the relatively inefficient judicial system is ineffective in combating corruption. When integrity is so lacking that government officials unabashedly seek personal gain at the expense of public interest, it is a disastrous recipe for any economy.⁷ When government officials prioritize personal gain over the public interest, the consequences are detrimental to economic well-being. This is a significant observation, highlighting the crucial role of transparency, accountability, and ethical leadership in creating a prosperous economy.

Economic freedom is the fundamental right of every human being to determine their own economic destiny.⁸ It empowers citizens to control their labor and property, enabling them to participate freely in the marketplace. In societies that uphold this “sacred right,” citizens are free to pursue their economic ambitions as they see fit, whether it be through work, production, consumption, or investment. These freedoms flourish in environments where governments facilitate the unhindered movement of labor, capital, and goods, recognizing that such freedom fosters ‘economic prosperity’ and citizens’ well-being. By refraining from unnecessary “coercion” and respecting the inherent freedom of its citizens, a government fosters an environment where economic freedom can reach its full potential. Unfettered economic freedom is a potent catalyst for widespread prosperity, propelling societies toward a prosperous future. The Index of Economic Freedom,⁹ precisely documents the correlation between economic freedom and a multitude of desirable social and economic outcomes.

On that note, in the 2023 Index, Türkiye’s Economic Freedom Score (EFS) is 56.9 (on a 100 point scale), making its economy the 104th freest out of 184 countries (i.e., between Senegal to Guyana). Türkiye is ranked 41st out of 44 countries in the Europe region, and its overall score is lower than the world average (See Figure 1 and Figure 2).

⁵ See: <https://developingeconomics.org/2020/12/10/debating-state-capitalism-in-turkey-beyond-false-dichotomies/>.

⁶ See: <https://www.heritage.org/index>.

⁷ See: <https://www.kennesaw.edu/coles/centers/markets-economic-opportunity/docs/commentary-december-2021.pdf>.

⁸ See: <https://www.heritage.org/index/about>.

⁹ For an overview of this index, see: <https://www.heritage.org/index/about>.

Figure 1: Economic Freedom Score¹⁰

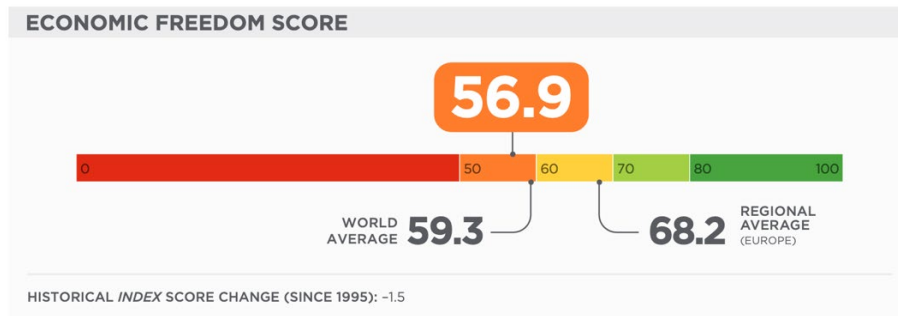
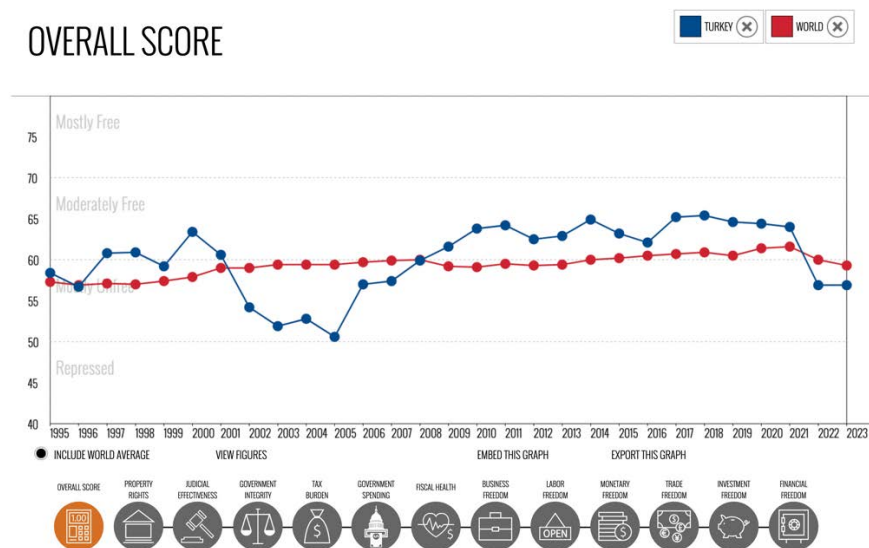


Figure 2: Economic Freedom Overall Score¹¹



Erdogan further consolidated his power after the 2018 elections. Following this election, an AK Party coalition with the Nationalist Action Party retained control of Türkiye's unicameral national assembly¹² and Erdogan managed to win a second term as President. Between 2018 and 2023, Türkiye's EFS plummeted from 65.4 to 56.9. The country's misery index has reached 32.7 (a result of 13.1% unemployment and inflation (CPI) of 19.6%). Further, with public debt equaling 41.8% of GDP, legitimate concerns about the country's financial sustainability are raised. The high misery index and weak economic performance could lead to further deterioration in living standards for many Turkish citizens. Both the judicial effectiveness score (24.2) and government integrity score (37.1) are below the world average (48.5; 44.5), suggesting a weakening of institutional safeguards against corruption and arbitrary decision-making (See Figure 3 and Figure

¹⁰ https://www.heritage.org/index/pdf/2023/countries/2023_IndexofEconomicFreedom-T%C3%BCrkiye.pdf.

¹¹ <https://www.heritage.org/index/visualize>.

¹² A legislature is unicameral if it consists of only one house.

4). The consolidation of power and potential democratic backsliding will likely deter foreign investment and dampen economic prospects.

Figure 3: Judicial Effectiveness Score¹³

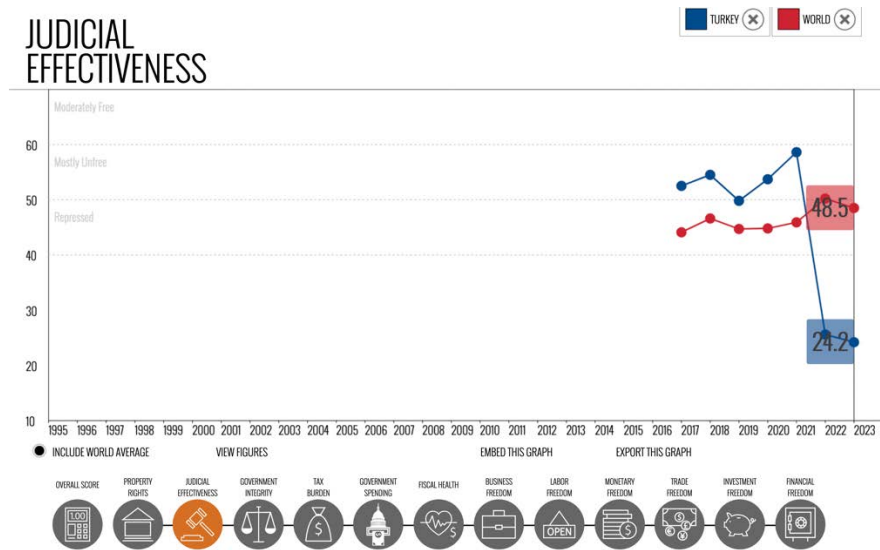
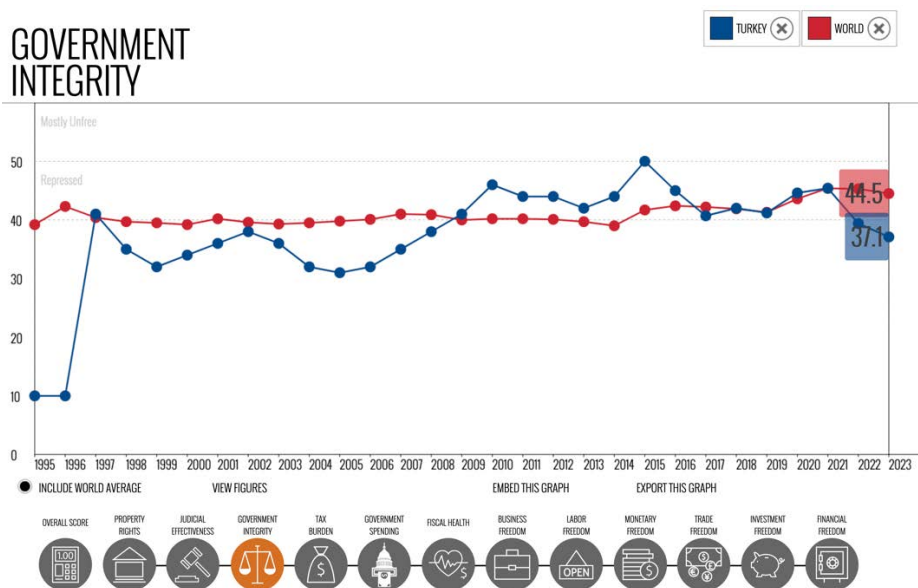


Figure 4: Government Integrity Score¹⁴



¹³ <https://www.heritage.org/index/visualize>.

¹⁴ *Ibid.*

Türkiye's shift towards authoritarian state capitalism has significantly impacted its economic landscape and raised significant concerns about its long-term economic freedom and prosperity. While the short-term outlook remains mixed, addressing these challenges through increased transparency, accountability, and a more "rule-based economic framework" will be crucial for restoring economic freedom and achieving sustainable prosperity for all Turkish citizens.

"Authority, without any condition and reservation, belongs to the nation."

— Mustafa Kemal Atatürk