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WHY HAS TURKEY FAILED? DOES IT FIT TO ACEMOĞLU AND ROBINSON'S THESIS IN WHY NATIONS FAIL?

Bahri Yilmaz*

Executive Summary

In their book *Why Nations Fail,* Daren Acemoğlu and James A. Robinson attempt to examine which factors are responsible for the political and economic success or failure of states. They argue that countries differ in their economic success because of their economic and political institutions, more specifically whether or not countries develop extractive or inclusive economic and political institutions. Looking at the historical development of institutions in Turkey, this paper assesses whether or not Acemoğlu and Robinson's arguments can be applied to the case of Turkey and the relationship between institutions and economic growth.

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Introduction

In the last two decades the discussion on developing economies has been intensively focused on two basic questions: (1) why are some developing countries growing faster than others; (2) how and when can developing countries' economies catch up with advanced countries. Attention has been primarily paid to rapidly developing countries such as China and India and whether or not the two different development strategies of these countries could be adopted and implemented by other developing countries.[1]

It is widely accepted that there are three main explanations for the failure of developing countries: (1) an insufficient reform mindedness of developing countries' governments; (2) the counterproductive policy recipes of the "Washington Consensus"; (3) more deeply rooted barriers to growth related to institutional deficiencies prevailing in various developing countries.[2] Most neo-classical economists argue that market failures can be corrected by market mechanisms; therefore, institutions are needed in order to increase market efficiency.[3]

There is an intensive and interesting ongoing academic discussion about the relations between institutions and development based on two major views, the Grand Transition (GT) and the Primacy of Institutions (PoI), both of which research the correlation between institutions, democracy, and economic growth.[4] Both GT and PoI have old and strong theoretical roots, and both originate from Nobel Prize winners: Simon Kuznets (1901–1985) and Douglass North (1920-2015). One of the most basic questions put forth by researchers is whether higher quality growth can be also achieved under authoritarian regimes such as East Asian countries or democracy.[5]

According to Kuznets, economic and political institutions develop in parallel to economic development. For example, industrialization leads to the emergence of the labor class and thus labor unions. Similarly, the growth of financial institutions is stunted where there is no money market economy. In contrast, North argues that the foundation of economic development is the establishment of economic and political institutions. According to this view, labor unions and financial institutions, for example, must be established first to pave the way for economic development.[6]

In their book *Why Nations Fail*, Daren Acemoğlu (MIT) and James A. Robinson (Harvard) attempt to examine which factors are responsible for the political and economic success or failure of states.[7] The authors argue that the existing explanations for the emergence of prosperity and poverty, e.g., geography, climate, culture, religion, or economic policies, are either insufficient or defective. Therefore, they build a universal theory arguing that political institutions determine economic institutions.[8]

Acemoğlu and Robinson argue that countries differ in their economic success because of their economic and political institutions, which are divided into two broad groups. The first group is *extractive economic and political institutions*, which are representative of a lack of law and order; insecure property rights, entry barriers, and regulations preventing functioning of markets and creating a non-level playing field; and supportive economic institutions that protect the interests of the elite against the rest of the population. The second group is *inclusive political and economic institutions*, which are institutions allowing for broad participation and pluralism placing constraints and checks on politicians.[9]

Acemoğlu and Robinson state that inclusive economic and political institutions (or inclusive institutions in general) create powerful forces for economic growth by encouraging investments (because of well-enforced property rights), increasing power of markets through better allocation of resources, allowing for entry of more efficient firms, financing start-up businesses, and generating broad-based participation (education, free entry, and broad-based property rights). The main aim of inclusive institutions is to help with growth, whether it would be through investment in new technology or creative destruction.[10]

Seeing the interplay of the above-mentioned arguments along with Turkish political and economic history, the main purpose of this paper is to find out whether or not the arguments presented by Daron Acemoğlu and James R. Robinson in their book *Why Nations Fail* are also reliable and applicable to the case of Turkey's economic development. To be more precise, we would like to analyze whether or not their research results indicating relations between institutions and economic growth across many countries are also applicable to or irrelevant for Turkey's economic development.

The Inclusive Economic and Political Institutions Established by the Founders of the Turkish Republic

"In the infancy of societies, the chiefs of the state shape its institutions; later the institutions shape the chiefs of state." - Baron de Montesquieu.[11]

It seems to be absolutely essential to first focus on the relations between economic policy, institutional development, and economic performance in Turkey starting from 1923 until today. The reason behind this analysis is to draw some policy lessons for Turkey based on its past growth trends.

What did the Turkish Republic inherit from the Ottoman Empire?

The Ottoman Empire, stretching from the Adriatic Sea to Yemen, ruled the Middle East and North Africa for more than 400 years. After the collapse of the Ottoman Empire in 1918, the newly founded Republic of Turkey rose in 1923. The Ottoman Empire was the largest Islamic Empire ruled by an absolutist sultan, who claimed also to be the *caliph* of all Muslims. The law was based on the religious law of Islam (*sharia*). Education was based on religious principles, implemented by the religious scholars (*imam*) and supported by religious pious foundations.

Acemoğlu and Robinson argued that the Ottoman Empire was based on absolutism.[12] The political and economic institutions inherited from the Ottoman Empire can be broadly defined as "extractive" institutions. Therefore, the collapse of the Ottoman Empire had left Turkey with a very poor economic and social heritage.

According to the first systematic census in 1927, the country had a population of approximately 13.6 million. Prior to this the Ottoman Empire had lost around 2 million soldiers during the First World War (1914-1918) and Independence War (1920-1923). In 1927, 77 percent of the population was living in rural areas, and 80 percent of the population was employed in the agricultural sector, which was using very primitive production techniques for the time. Around 97 percent of the population had no formal education, and most citizens were illiterate.[13]

As economic life was predominantly based on agriculture before and after the breakdown of the Ottoman Empire, the share of the industrial sector in total GDP was only 12 percent, and a limited amount of labor was employed in the industrial sector. Agriculture is estimated to have accounted for 50 percent of GDP in the early 1920s. Turkey was mainly exporting agricultural products (tobacco, cotton, hazelnuts, olive oil, and wheat). The only part of the country's infrastructure that had received attention was the railway system, and they were foreign-owned as were most banks and manufacturing enterprises.

What made matters worse was that a large portion of non-Muslim ethnic minorities had left the country during the war of liberation, greatly diminishing Turkey's already small contingent of technicians and entrepreneurs. Educated Muslim Turks had tended to regard commerce and industry as beneath them, preferring a more prestigious career in the civil service or armed forces.

Although the Republic was exempted from payment of war reparations and most of its war debt was written off, it was nonetheless held responsible for the large commercial debt the Ottoman Empire had accumulated in the 19th and early 20th centuries. Turkey was also obligated by the terms of the treaty to continue to allow concessions granted to foreign companies before 1914, which included rights to impose taxes and collect tariffs. Perhaps most important of all, Turkey was forced to maintain the Ottoman tariff schedule until 1929.

What Changed? Radical Political and Economic Institutional Reforms under the New Ruler

The reforms that the leadership initiated, headed by Atatürk and his fellows, transformed the economic and political structure that the country had inherited from the Ottoman Empire. The main goal of Turkey's new Republican elites, mostly high-ranking military officers and civil servants who had served in the Ottoman army and administration, was to build a modern state and to shed the Ottoman legacy.

Political and Social Reforms: New Inclusive Institutions

One of the main discussions in Acemoğlu and Robinson's books concerns how to transform extractive institutions into inclusive institutions. Historically, political institutional change often occurs through revolution, through which extractive institutions can be replaced with inclusive institutions.[14] Thus, it is fitting that most of the political institutions founded after 1923 can be regarded by definition as "inclusive" institutions.

The main characteristic of "the Modernization Revolution" in Turkey is that it was initiated and implemented by the upper class (military-bureaucrats). There was no strong support, pressure, or resistance from social classes at the bottom demanding to transform the country from traditional to modern society. Simply, most of the population had no idea and showed no interest in what was happening in the country in the 1920s. In other words, no influential industrial labor leaders were able to create class consciousness. There was only a very small and weak educated middle class. The upper merchant-capitalist class had not accumulated capital but were well-prepared and ready to take over the leading role in economic and political life. They meanwhile claimed to share political power.

Radical Reforms: Inevitable and Absolutely Essential

Three revolutionary reforms were vitally important for Turkish society: establishing a national state; implementing secularism upgrading the status of women in an Islamic society; and adopting and implementing a European legal system. The basic aim behind these comprehensive reform movements was to catch up and to integrate Turkey into Western civilization.

The first task of the founder of the Republic was to establish a centralized and efficient national state based on a national parliament, with its political and economic institutions taken as examples mainly from Europe. As a first step, elected members of the Grand National Assembly founded the Republic on October 29, 1923, and a new constitution was proclaimed and put into force on April 20, 1924. The constitution declared that Turkey is a republic, its capital Ankara, and its religion Islam (although this was abolished from the constitution in 1928). The president was elected by the parliament, and he had the political power to select the members of his cabinet. The country was ruled by one party—the Republican People's Party (CHP)—and its chairman was the president of the Republic. The president shared political power with the elected parliament.

The second task was to abolish the caliphate. On March 3, 1924, the Turkish parliament voted to depose the last caliph, abolish it, and banish all members of the Ottoman house from the country. This secular revolution, which aimed at the separation of state from religious affairs, was accompanied by other measures. The discrimination of women in public life and public institutions was undermined, and the former Islamic legal system was substituted with the Swiss civil code. The office of Sheikh ul Islam was abandoned. The religious schools (*medreses* and *mekteb*) were replaced by public schools under the supervision of the Ministry of Education. The Koran was also publicly read in Turkish.

Turkey adopted the so-called French integrationist model under which the state and public law is the governing body of public policy. Religion was regarded as an integral part of private life, and religious affairs were not admitted in the public sphere, despite Turkey being 99 percent Muslim. Religious communities were allowed to operate under the conditions that they respect public law and public order. The founders of the state were aware of the fact that the influence of religion on society cannot be eliminated overnight—although Islam was not institutionalized and was not well structured such as under the Roman Catholic Church.[15]

Although Muslims were shocked at the abolition of the caliphate and the transformation of Islamic customs and principles, the principles of secularism gained common ground among leading forces of the country such as the military, intelligentsia, and civil servants who had settled predominantly in urban areas. In contrast, religious values and beliefs in rural areas, such as those of peasants, small traders, and artisans, remained largely unaffected by the secular reform movement introduced by republicans. In other words, it was a great mistake and naive to believe that the influence of Islam could be undermined in Turkish society and its organizational forms could be destroyed within a short span of time.

A third important reform task was the implementation of the new legal order in 1926. The Turkish parliament adopted the Swiss civil code, which changed the traditional way of life in a radical way. Furthermore, the penal code was modeled on the Italian code, and the commercial code was adopted from Germany. Another important step was taken by the government to put the Western-oriented educational system into force. Modern state universities were founded by German immigrants who fled from the Nazi regime during the 1930s. In plain language, the empowered leadership under the semi-authoritarian regime introduced most inclusive political institutions.

Economic Policies and Institutions:[16]

The second part of the reform movement took place in the field of economics. Turkey's development strategy was built upon three broad objectives: rapid economic growth; self-reliance (or self-sufficiency) and job creation; equitable income distribution and social justice. Herein, the historical development of these institutions will be traced throughout the history of the Republic until the present.

1923-1930: Construction and Searching for a New Development Strategy

The government was not in the position to pursue these objectives in the 1920s. The leadership had neither a clear concept of nor the necessary experience for the economic development of the country. Accordingly, industrialization should have been carried out by "the Turkish businessmen and national industry" rather than government elites. It was assumed that capital accumulation had to be forced by the state. The state should have taken the economic responsibility and attended to the production process actively in a way in which the private sector was not in a position to do through its own resources. The government's policy initiatives were mainly directed at promoting private investment through the establishment of several investment banks and the creation of certain tax concessions and direct subsidies (for example, in the sugar industry).

The following factors hindered the success of this attempt to implement liberal policies and the establishment of the market economy in the 1920s: (i) the burden of foreign debts taken over from the Ottoman Empire, which made it difficult to finance the planned productive investments; (ii) the lack of entrepreneurial and capitalist spirit of individuals; (iii) the Great Depression in 1929, after which the government followed with protectionist trade policies and a currency control regime in order to close the gap between import expenditures and export revenues.

1930- 1950: The "Etatist" Period (State-led Economic Development/ State Capitalism):

Beginning around 1930, the government's approach to the economy began to change. The "First Industrial Plan," which was prepared with the help of the planning experts of the Soviet Union, was introduced. The Central Bank of Turkey was founded in 1931.

There were three main arguments for changing Turkey's market-oriented economic policies to state-oriented policies:

(i) *Etatism/state capitalism*: After an initial period of relatively free trade policies in the 1920s and very low overall growth, the government decided to introduce a policy of "etatism or state capitalism" in the 1930s. Within the framework of the new development philosophy and policy, the government then started to heavily intervene in the economy. It helped launch and sustain an inward-looking strategy, taking into consideration the initial conditions in structure and industrial organization.

(ii) Import substitution: This is a policy replacing imports by domestic production under the protection of high tariffs and quotas. This approach ignores the benefits of specialization and comparative advantage. Until the 1970s many developing countries were skeptical about the possibility of exporting manufactured goods. They believed that industrialization was based on the substitution of domestic industry for imports rather than on the growth of manufactured exports; therefore, developing countries opted for import substitution or inward-looking development strategies rather than export-oriented development strategies.

(iii) Infant industry argument: According to the infant industry argument, potentially developing countries have a comparative advantage in manufacturing. But manufacturing industries in developing countries cannot initially compete with well-established manufacturing sectors in developed countries. In order to make manufacturing more competitive, governments should temporarily support and protect new industries until they have grown strong enough to meet international competition. Therefore, it makes sense, according to this argument, to use trade restrictions and to protect domestic young industries from outside competition.

Indeed, in the 1930s, Turkey had to cope with a huge amount of structural and institutional problems. There was a shortage of entrepreneurs and managers to undertake activities in the private sector. The private sector had little share in either the domestic or foreign markets. It assigned a leading and dominant role to the state in economic development with key industries such as manufactured goods, textiles, railways, telecommunications, and the energy sector. Under the new state-led and inward-looking development strategy, a number of State Economic Enterprises (SEEs) were established in Turkey. SEEs mainly produced and marketed a variety of agricultural, mineral, and manufactured commodities.

Many SEEs produced manufactured goods that had previously been imported. Excessive protectionist measures were put in force to protect the infant industries from international competition. Throughout the years the importance of SEEs and their share, either in total production or in total employment, grew steadily. At the same time, these state-owned enterprises represented the main up-and-coming industrialists and top managers in the private sector.

Although Turkey was not actively involved in the Second World War, the war profoundly effected Turkey's domestic political and economic situation and halted its reform movement. The government followed authoritarian policies in which the state was faced with greatly increased military expenditures on the one hand, and the economic growth rate dropped rapidly on the other. Merchants and black marketers made great profits. In order to cover the public expenditures, heavy taxes were imposed on capital and agricultural production.

1950-1960: The Return to Private Sector-Friendly Liberal Economic Policies

The unexpected defeat in 1950 of the Republican People's Party, which had ruled since the founding of the Republic in 1923, raised hope that the failures of etatism would be corrected. The newly elected government wanted to give a larger role to private enterprises. It was also promised that greater attention would be paid to the problems of agriculture, which had been largely ignored in the past.

In a short time, the newly elected government headed by Adnan Menderes, whose new economic program took gradual steps towards the integration of the Turkish economy into world markets, initiated the economic policy reform. The New Economic Program removed quantitative restrictions on foreign trade to a large extent, reduced the distortions of import tariffs, promoted exports (mainly agriculture), and liberalized rules on foreign direct investment. The government aimed to privatize and regulate state economic enterprises.

The success of policy reforms on which Turkey embarked during the 1950s remained very limited for three reasons. First of all, the fundamental conditions for import substitution were maintained, and the government did not totally disengage itself from control of the economy. Secondly, the economic liberalization program during the 1950s was not accompanied by the full liberalization of foreign trade and foreign exchange regulations. Thirdly, export revenues could not be as rapidly increased as industrialization required. Consequently, the economics of the Menderes government reached a deadlock at the beginning of August 1958 when the IMF's new stabilization plan was enforced. This stabilization package covered not only the standard and classical measures but also the establishment of a restricted import regime based on annual import programs fixing quotas by users and producers. The 1958 and 1959 measures succeeded in stabilizing the economy but not the political system. Therefore, military leaders took power in May 1960.

1960-1973: Planned Industrialization

At the beginning of 1960, Turkey's traditional inward-looking economic strategy was reinforced with fresh impetus. Turkey turned towards indicative development planning, which had first been instituted in the 1930s. In the early 1960s, the newly formed State Planning Organization (SPO) was given responsibility for designing development policy. The SPO articulated the policy of encouraging industrialization through import substitution.

By the mid-1960s, the Turkish economy had already completed the first stage of its import substitution in replacing imports with non-durable consumer goods (food processing, textiles, etc.). Then the government decided to implement the second stage of import substitution, which meant that the imports of intermediate goods (steel) and consumer durables were to be replaced by domestic production. In contrast to the first stage, the economy needed to transfer higher capital-intensive technologies and train a qualified labor force; these were indispensable forces for achieving the planning targets.

In order to grow, a nation must invest. Turkey managed to devote a growing proportion of national income to making domestic investments financed predominantly by domestic savings. By 1969, it was apparent that Turkey was approaching a situation not unlike that which it had faced in the late 1950s.

Two developments led to rising budget deficits in the early 1970s: large salary increases to civil servants and a dramatic rise in SEE financial deficits, owing both to increased wage cost and a rise in the rate of investment by SEEs. Toward the end of the decade, however, foreign exchange difficulties intensified.

By 1970, the government once again entered a stabilization program with the IMF, devaluing the currency against the U.S. dollar in an attempt to stabilize the economy. As in the 1958-1960 devaluation episodes, the intention was to rationalize the trade and payments regime, but the fundamental philosophy of import substitution underlying the regime was not questioned. Political antagonism, on the other hand, remained very close to the surface and hampered the government's ability to deal with the growing economic problem. As a consequence, the military again intervened in 1971.

1973-1980: Boom and Bust

The outlook for the Turkish economy in the early 1970s was optimistic. The foreign exchange constraint seemed to have been overcome, and foreign capital was available thanks to the expansion in world liquidity generated by Organization of Petroleum Exporting Companies (OPEC) surpluses after 1973. The period from 1973 to 1977, the third five-year plan, was one of remarkable achievement, particularly in the industrial sector, which experienced real growth of 14.2 percent per annum.

The main stimulus for growth was a rapid rise in the level of investment, especially in the public sector. Foreign rather than domestic savings financed the rise in investment from about 19 percent of GDP in 1973 to 24 percent of GDP in 1977. This approach was not sustainable. The growth boom began to decrease in 1977 as foreign lenders became worried about the size and structure of Turkey's rapidly growing external debt.

During the mid-1970s boom, inflation averaged about 20 percent per annum, or four times the average rate in the preceding decade. Inflation continued to accelerate, hitting an all-time high of just over 100 percent in 1980. Growth was based on inflationary policies, heavy borrowing, and import-substitution policy.

The 1970s were a period of great political instability in Turkey. Five elections were held, but no party achieved parliamentary majority. In these circumstances, there were only two ways to satisfy the competing claims of interest groups. One was to borrow resources from abroad and spread them around; the other was to resort to inflation.[17]

The chief difference between the inward-looking and outward-oriented development strategies is that in Turkey protection was too comprehensive, and too little attention was paid to the possibility of exporting manufactures to complement import substitution. Because of the inward-looking development strategy, it is clear that Turkey failed to take advantage of opportunities offered by growing world trade. The decision-makers in Ankara aggressively pursued the import substitution policy without any intention of shifting the strategy from inward to outward starting from 1930s. They did not take care of macroeconomic stability and pursued populist macroeconomic policies.

Finally, inward-looking policies and import substation led to financial instability, accelerating inflation, bitter industrial conflicts, and the balance of payments crisis, which repeated itself regularly and ended with a military takeover in 1980 and the implementation of the "Economic Stabilization Program" imposed by the IMF and the World Bank. In turn, the implementation of programs and the need for political stability was to a large extent secured by the military takeovers in 1960, 1971, and 1980.

1980-Present: Outward Development Strategy, a New Start

Under these circumstances on January 24, 1980, the government announced, under pressure of the IMF and the World Bank, a series of far-reaching reforms. The main objectives of the 1980 reforms were to improve the balance of payments and raise international competitiveness, to contain inflation, to raise the efficiency of SEEs, and to shift the economy's center of gravity from the public to the private sector. The economic reform policies that were initiated on January 24, 1980 represent the most important steps taken for control of market forces, exchange rate management, and trade policy. Additionally, prices of outputs in public sector enterprises were increased sufficiently to reduce their deficits and thus sharply cut the size of the public sector deficit. Also, foreign trade reforms were coordinated with radical policy shifts away from market intervention, import reliance on market forces, and trade liberalization.[18]

Unfortunately, on grounds of populist and inconsistent policies pursued in the 1990s, the "two steps forward and one step backward" sequence, i.e., the outward-looking development strategy put in force in 1980, was interrupted by significant mistakes made by Turkish policy makers. Inflation and unemployment remained a major concern of the Turkish economy once again, as well as did high levels of unemployment due to rapid population growth, worsening income distribution, and dependency on external sources.

The economic crises of 1994 and 2001 damaged the Turkish economy greatly, requiring long-term and costly solutions before the Turkish economy was able to recover. Turkey, through the guidance of Kemal Derviş (then Minister of State for Economic Affairs), managed to successfully navigate the 2001 crisis and restore macro-economic stability.

The Turkish economy improved considerably in 2002. As a result, Turkey was ranked as the 16th largest economy among the Group of Twenty Finance Ministers and Central Bank Governors (G-20) nations. It also became the sixth strongest European economy. There are two important reasons for Turkey's economic success during this period. Firstly, the Justice and Development Party (AK Party) government, which came to power the same year, continued the stabilizing policies of the IMF.

Additionally, the reforms launched by Prime Minister Recep Tayyip Erdoğan's AK Party government were fully supported by the United States and the European Union (EU). The economic stability in Turkey during the early AK Party period enabled the country to hold accession talks with Brussels in 2005. Secondly, the steady rise of the global economy in 2002-2008 bolstered Turkey's economic growth, and the country was able to benefit greatly from these global monetary funds.

It is interesting to note that in a common paper Acemoğlu focused on the relations of institutions and economic growth in the period of 2002-2015.[19] Acemoğlu has further argued in his various lectures and in papers that the rapid economic growth in the years between 2002-2006 was strongly linked to the institutional reforms initiated by the IMF and World Bank in 2001. In a break from this, Acemoğlu and Ucar argued that economic growth has slowed down due to the weaknesses of institutions caused by domination of the AK Party and Turkish civil society taking the line of least resistance after 2007.[20] In fact, the global recession of 2008-2009 that started in the United States had a negative impact on Turkey's economy. As a consequence, Turkey's growth slowed, exports stagnated, and unemployment rates increased. In 2017, the main problems faced by the Turkish economy remained unchanged: namely, slow growth, increased inflation, stagnated exports, large current account deficits and depreciation of the Turkish lira against other hard currencies, unequal income distribution, accumulated national outstanding debt, and increasing unemployment.

Where Does Turkey Stand Today: Comparison of International Indicators

The following international indicators show Turkey's global rankings in the international arena. Global rankings show that Turkey is seriously underperforming in a wide range of areas.

The European Court of Human Rights has delivered more than 19,570 judgments since 1959. Nearly half (approximately 45 percent) of these judgments have concerned four member states: Turkey (3,270), Italy (2,351), Russia (1,948), and Romania (1,283).[21]

Turkey holds a rank of 55.29 out of 100 in the World Bank's Worldwide Governance Indicators, Rule of Law index;[22]

80th of 102 in the World Justice Project - Rule of Law Index;[23]

69th of 190 in the 2017 World Bank's "Doing Business" report;[24]

75th of 176 in Transparency International's 2016 Corruption Perceptions Index Score, receiving a total score of 41 out of 100;[25]

60th of 186 in the Heritage Foundation's 2017 Economic Freedom Index;[26]

130th of 144 in the World Economic Forum's Gender Gap Index 2016;[27]

"partly free," with a score of 38/100 in Freedom House's 2017 Freedom in the World Report; [28]

a "hybrid regime," with a score of 5.04/10 and ranking 97th of 167 in the Economist Intelligence Unit's Democracy Index 2016;[29]

69th of 113 in the Global Democracy Ranking 2015;[30]

155th of 180 in the Reporters Without Borders 2017 Press Freedom Index;[31] and

66th of 71 in the Democratic Barometer/Democracy Quality 2014.[32]

Closing of a Vicious Circle: The Radical Turning Point of the New Constitutional Amendments of 2017

In early 2017, Turkey's parliament approved a package of new constitutional amendments and decided to put the new constitution to a public referendum on April 16, 2017. With the constitutional changes, the president will gain a number of powers, including the right to draw up budgets, to appoint and dismiss government ministers and judges, and to issue decrees in some areas. The president would also be allowed to retain an affiliation to a political party. The president was formerly required to nominally sever his political ties and govern as a neutral actor. According to the critics of the constitutional change, the amendments contained all the elements that would move Turkey away from the core norms of a pluralist, democratic state of law—separation of powers and a system of checks and balances—and transform it into the concentration of power in the hands of a president.

On April 16, Turkish voters decided to accept these constitutional amendments by a narrow majority. The results showed the "yes" vote gained about 51.4 percent of the vote compared with 48.6 percent for the "no" vote. Turnout exceeded 80 percent. The results show that the Turkish electorate was deeply divided into two groups: the "Yes" side consisting of Islamic-oriented conservatives, traditionalists, and extreme nationalist who are mainly living in relatively underdeveloped regions of Turkey, most of them farmers, Anatolian small- and mid-sized business owners, and the unskilled labor force; the "No" side predominantly living in Western-oriented big cities such as Istanbul, Ankara, and Izmir with high levels of education and development.

Given the referendum results, it is likely that Turkey will return back to the starting point at which extractive institutions were demolished 94 years ago. With this step a vicious cycle will be closed, and extractive institutions will return to Turkey. Ironically, Montesquieu pointed out that initially the chief will continue to design the institutions, because the state is not able to create well-performing inclusive institutions that control the chiefs. Now, in reverse course, the chiefs will continue to shape the institutions under his/her own will for the foreseeable future in Turkey.

What Went Wrong and What It All Means?

"The difficulty lies not in the new ideas, but in escaping from the old ones."

John Maynard Keynes, Cambridge, (1883- 1946)

Now the question is: In what sense did Turkey's political and economic institutions turn from "inclusive" to "extractive" between 1923 and 2017? When we look back on the past 94 years of economic and political development in Turkey, we can draw the following conclusions and identify the main reasons for the failures and contradictions to the theses argued by Acemoğlu and Robinson.

1. The first point of controversy in assessing Acemoğlu and Robinson's theory is the transformation undergone between the Ottoman Empire and the Turkish Republic. The reforms that Atatürk and his contemporaries initiated spearheaded the transformation of the economic and political structure, which the country had inherited from the Ottoman Empire. Most of the political institutions founded after 1923 can be regarded by definition as "inclusive" institutions without any reinforcement from the large part of the population. According to the "modernization theory" advanced in Acemoğlu and Robinson's book, sometimes a strong and authoritarian leader can make the correct choices to help a country grow. There is then a good chance the country will evolve to have more "inclusive" politics. Atatürk in Turkey, Otto von Bismarck in Germany, Emperor Meiji in Japan, Lee Kuan Yew in Singapore, and finally Deng Xiaoping in China are fair examples.

2. Initially, Turkey adopted and implemented "inclusive political and economic institutions," rule of law, and fundamental principles of the parliamentarian democratic system, especially those from Western Europe during the 1920s and 1930s. Acemoğlu and Robinson believe that political "inclusiveness" must come first, before growth is achievable. Due to inclusive institutions and the rapid economic growth between 1946-1953 (10.2 percent) as well as the social pressure of upper and lower classes

on single-party government after the Second World War, Turkey opened up to the Western type of democracy. Therefore, the first democratic and free election took place on May 14, 1950.[33] In plain language, the inclusive institutions led to rapid economic growth and development, which in turn induced the birth of the multi-party democratic system. In this respect, it may be argued that a close relationship exists between inclusive institutions and economic development, and Acemoğlu and Robinson's theses could be confirmed and justified.

3. Since then, the creation and the reform of the present institutions in place have been made according to the "blueprint" approach, with "more haste and less speed." The basic problem seems to be the unwillingness, weakness, and operational inability of political power to restructure the state apparatus from the bottom to top over time, changing national and international circumstances. In the short term, the established inclusive political and economic institutions could not take the line of self-defense against the pressure of decision-makers. So, the military took over power three times (1960, 1971, and 1980), and the last two constitutions (1961 and 1982) were prepared and put into force by military governments.

4. Turkey's situation can be exclusively explained with the help of the "Ignorance Theory." This theory maintains that poor countries are poor because they have a lot of market failures and because economists and politicians in power followed wrong and irrational policies in dealing with economic issues.[34] In the case of Turkey, the governments in power had no intention at all to switch the development strategy from an inward-looking to a world market-oriented development strategy for more than half a century. One of the main reasons for the rebirth of "extractive" institutions is the dominating role of the state in the Turkish economy. The state is still regarded as the main spring of resource allocation. For a long time the state has been regarded as an entity, and it must be widely protected from internal and external enemies. Economic reforms have been realized and carried out within the stabilization programs designed by international organizations such as the World Bank and/or the IMF; Turkey has signed almost 20 standby agreements with the IMF since 1958.

5. Another important factor is the weakness of social and economic classes, namely civil society, to advocate for and to protect institutions against the political power of the government. Simply put, most institutions were founded by decrees passed though the parliament without any strong claim by stakeholders for their legal and co-determination rights on decision-making. Most of the politicians and electors share the common beliefs that democracy is only elections and votes. Therefore, it is enough to go to the ballot box on Election Day and cast one's vote in order to fulfill democratic duties. As a matter of fact, for the governments in power, their first priority is to win the election and stay in power as long as possible rather than taking initiatives to modify the inclusive institutions. As a general rule, unstable governments with weak electoral bases are likely to embark upon populist policies in order to increase their chances of re-election at a low cost

6. One of the main pillars of Turkey's constitution is the principle of secularism. For a long time, secularism was regarded as the driving force of the country, an important pillar and an essential part of the "Revolution of the Republic." The implementation of secularism over the decades had upgraded Turkey's position particularly in the West and among the Western-oriented elites in Islamic countries. Starting from 1946 onwards, secularism began to be rolled back, and religion began to play an important role in political rivalry.

7. In his "Protestant Ethic and the Spirit of Capitalism," Max Weber[35] (1920 and 1921) argued that "it is the ethic that is given, any type of economy which necessities the people's possessing and ethos incompatible with that ethic will not develop; rather the emergence of an economy compatible with this ethic is inevitable." It seems to be obvious that there is a close relationship between institutions, political culture, and cultural heritage and a country's sociological and religious background in establishing any

market and non-market institutions among developing countries. Since 2002, the AK Party has been governing the country and, especially after 2007, the AKP governments have started to restructure and reshape the economy and society according to their own ideology employed by their own supporters in the administration, founded their own NGOs, and radically changed the educational system in favor of its own ideology.[36] The final destination seems to be a one-party state. We think that these phenomena can be exclusively explained with the help of cultural theory rather than the primacy of institutions. [37]

To sum up: Turkey's experience, at least up until the present, indicates that political power generally does not respond promptly to any reaction from the bottom and/or it resists any movement that would disturb the existing status quo (self-defense mechanism). In addition, there was no strong demand and full commitment for well-functioning democracy or heavy pressure on the government from interest groups at the bottom to defend their economic and political interests through using democratic rights. Therefore, the institutions were not fully respected and could not gain a strong upper hand. As a result of this pattern, over time inclusive political and economic institutions were depleted, and most of them have reverted to extractive institutions over the last years. Turkey has not been able to improve either the instructive economic institutions or political institutions established almost a century ago. The continued presence and domination of the state is due to the fact that most of the inclusive political and economic institutions were initiated in the beginning and converted throughout time to executive institutions, and then they continued to exist in appearance but not under well-functioning and self-confident instructions. Of course, as a first step, it is important to establish inclusive institutions, but the most important factor is to prevent them from converting to extractive institutions.[38] Knowing what is the right policy is not enough; it is also necessary to have both the political will and the eagerness to implement it. As Siebert pointed out, "…but this requires a deep breath for the transformation… if willingness to reform is lost in the course of time, the transformation process can come to a halt."[39]

Conclusion

Hereby, we propose four basic solutions toward Turkey's return to inclusive political and economic institutions:[40]

1. The quality of institutions can be improved quickly and easily if external anchors (external anchor approach) such as the EU Commission and the European Parliament put strong pressure on political power in Turkey. The negotiation process for EU membership is the best chance not only to reform Turkish institutions but also to improve the political system by changing the political culture in Turkey through enforcing and promoting the so-called "Europeanization Process" and restructuring modernization policies in all realms. Acemoğlu and Ucer argued that one of the main reasons for Turkey's decreasing economic performance in the second half of the 2000s was the collapse of Turkey's relations with the EU. The authors also stated, "the EU might have significant power over Turkish institutions, capable of moving them in the direction of deeper and stronger democracy under the EU's pressure and anchor."[41]

2. The Turkish economy and political system can be adjusted according to the Copenhagen criteria, and economic and political life can be restructured through Turkey's adaptation of the EU acquis, which is dependent on four fundamental factors: (i) the creation of a new institutional framework and reformation, as well as the functionality of existing institutions according to the EU's requirements and legislation; (ii) further economic liberalization and full integration into the European Single Market; (iii) implementing European democratic and political values based on freedom of speech, the rule of law, liberties and human rights; (iv) a broad consensus among the main interest groups and political segments of society as well as their readiness for cost-sharing in implementing economic and political changes among social groups. These are the preconditions for successful restructuring and reform policies to re-establish the instructive institutions.

3. As long as the present state apparatus cannot be radically reformed and restructured by political power, and inclusive institutions cannot be reestablished, long-term success in economic development cannot be achieved. Then, the central question arises and remains still unsolved: how can the effectiveness and the quality of political power, as well as political and economic institutions, be upgraded within a pluralist democracy with active participation and strong support of the public stakeholders and be brought to the level of modern European institutions? When a country focuses on building infrastructure and improving education, and it uses market pricing to determine how resources should be allocated, then it moves towards growth.

4. The final point is related to political culture. The reversal of inclusive institutions indicates that not only the founding but also the maintenance, adaptation, and implementation of inclusive institutions are essential and necessary. It is most important to create, defend, resist, and protect inclusive institutions through supporting social and economic interest groups against ignorance and the domination of elected political powers.

Endnotes

1 | Horst Siebert, "The Growth Performance of Developing Countries in the Last Thirty Years: Who Gained? Who Lost?" Kiel Working Paper No. 1280 (Kiel: Kiel Institute for the World Economy, 2016).

2 | Peter Nunnenkamp, "Economic policy, institutional development, and income growth: How Arab countries compare with other developing countries," Kiel Working Papers No. 1183 (Kiel: Kiel Institute for the World Economy, 2003), 1.

3 | Dani Rodrik argues that "… market require institutions because they are not self-creating, self stabilizing, self-regulating, or self-legitimizing." He discusses five types of market-supporting institutions, each responding to one of these failures: property rights; regulatory institutions; institutions for macroeconomic stabilization; institutions for social insurance; and institutions of conflict management. Rodrik believes that "… taken together, these results provide a clear message: participatory political regimes deliver higher-quality growth…they produce superior institutions better suited to local conditions." See Dani Rodrik, Chapters 5-6 in *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth* (Princeton: Princeton University Press, 2007), 168-192.

4 | Martin Paldam and E. Gundlach, "Two views on institutions and development: The grand transition vs. the primacy of institutions," Kiel Working Papers No. 1315 (Kiel: Kiel Institute for the World Economy, 2007).

5 | Other theories attempt to explain the question of "why nations fail" using different approaches: the Geography Hypothesis, the Culture Hypothesis, and the Ignorance Hypothesis.

6 | In order to answer these basic questions, one must first understand how the concept of economic governance gained more ground and became a catchword for explaining studies of different institutions

under different conditions, the evaluation of state and private institutions, and the transformation and reshaping of institutions throughout time. This means that the economic performance of countries depends on different types of institutions.

7 | Daron Acemoğlu and James A. Robinson, *Why Nations Fail* (London: Profile Books, 2012).

8 | Daron Acemoğlu, Simon Johnson, James Robinson, and Pierre Yared, "From Education to Democracy?" *The American Economic Review* 95, no. 2, Proceeding of the One Hundred Seventeenth Meeting of the American Economic Association, Philadelphia, PA, Jan. 7-9, 2005 (May 2005): 44-49; Daron Acemoğlu, Simon Johnson, and James Robinson, "The Colonial Origins of Comparative Development: An Empirical Investigation," *The American Economic Review* 91, no. 5 (Dec. 2001): 1369-1401; Daron Acemoğlu, Simon Johnson, and James Robinson, "Institutions as a Fundamental Cause of Long-Run Growth," in *Handbook of Economic Growth, Volume 1A*, ed. Phillipe Aghion and Steven N. Durlauf, 386-472 (North Holland: Elsevier, 2005).

9 | Acemoğlu, Johson, and Robinson, "Institutions as a Fundamental Cause," 73-79.

10 | Ibid, 84-86.

11 | Richard Baldwin and Charles Wyplosz, *The Economics of European Integration* (London: McGraw Hill, 2006).

12 | Acemoğlu and Robinson argued that "… Ottoman Empire remained absolutist until it collapsed at the end of First World War… The reason that the economic changes (Industrial Revolution) that took place in England did not happen in the Ottoman Empire is the natural connection between extractive, absolutist political institutions and extractive economic institutions… Absolutism and a lack of, or weak political centralization are two different barriers to the spread of industry. But they are also connected, both are kept in place by fear of creative destruction and because the process of political centralization often creates a tendency toward absolutism…" Ibid, 216-217.

13 | For detailed information on the topic "from Ottomans to the Republic," see Oktay Yenal, *Cumhuriyetin Iktisat Tarihi* [*Economic History of the Republic*] (Istanbul: Homer Bookstore, 2003), 21-46.

14 | Michele Boldron, David K. Levine, and Salvatore Modica, "A Review of Acemoğlu and Robinson's Why Nations Fail," Economic and Game Theory by David K. Levine, http://www.dklevine.com/general/aandrreview.pdf.

15 | Thus, the Directorate for Religious Affairs (*Diyanetİşleri Başkanlığı*) was founded with the aim of supervising religious institutions and providing prayer and preaching. The Islamic education system was abolished and public religious schools were closed relegating religious education to the sphere of preachers and theologies. All kind of religious institutions and heterodox organizations, *tekkeler*, as well as sects, *tarikats*, and their activities were suppressed and forbidden by the state. Among a series of secular measures that were put into force were that the weekend holiday was moved from the Islamic holy day to the Christian Sunday, and the Gregorian calendar replaced the lunar calendar of Islam. During the transition from empire to republic, wearing apparel believed to symbolize the Islamic faith was forbidden, religious orders and activities were forced underground, and state authorities suppressed religious activities of all kind.

16 | For comprehensive studies on the Turkish economy, see Oktay Yenal, *Cumhuriyetin Iktisat Tarihi* [*Economic History of the Republic*] (Istanbul: Homer, 2003); Korkut Boratav, *Türkiye İktisat Tarihi (1908-2007)* [Economic History of Turkey (1908–2007)] (Istanbul: İmge Yayınevi, 11. Baskı, 2011); Yahya Tezel, *Cumhuriyet Dönemi'nin İktisat Tarihi (1923-50)* [Economic History of the period of the Republic (1923–1950)] (Istanbul: Türkiye Tarih Vakfı Yayınları, 1994);

Gülten Kazgan, *Türkiye Ekonomisindeki Krizler 1929-2001* [Economic Crises in the Turkish Economy 1929- 2001] (Istanbul: Bilgi Üniversitesi Yayınları, 2005).

17 | Governments in power, of course, tried both. But neither strategy worked indefinitely. There are limits to a country's ability to acquire external debt, and there are limits on the willingness of the population to bear the burden of rising inflation. The acceleration brought a dramatic increase in income equality between rural and urban areas that may have contributed to civil disorder.

18 | It was also expected that outward economic orientation could bring some benefits for the Turkish economy such as improved resource allocation in line with social marginal costs and benefits; access to better technologies, inputs, and intermediate goods; an economy better able to take advantage of economies of scale and scope; better education and training; greater domestic competition; and the increase in employment of highly skilled labor in the production process.

19 | Acemoğlu and Ucer find, "The key reform on the monetary policy front was undoubtedly the greater independence granted to the Central Bank, implemented as early as 2001... On the fiscal front, institutional overhaul was substantial as well. The important steps here were the passing of two crucial laws—the Public Finance and Debt Management (PFDM) Law of 2002, and the Public Financial Management and Control Law (PFMCL) of 2003... Finally, a Procurement Law, enacted under pressure and guidance of the World Bank in 2002, sought to ensure effectiveness, transparency and competitiveness in the public procurement system." Daron Acemoğlu and Murat Ucer, "The Ups and Downs of Turkish Growth, 2002-2015," NBER Working Paper Series, No.21608, https//www.nber.org/papers/w21608, 26-27.

20 | "We have argued that the turnaround in Turkey's economic performance is a reflection of the turnaround in economic policies and institutions, including the stalling or reversals in the process of much-needed structural reforms." Ibid., 17; "As Turkey-European Union relations collapsed and internal political dynamics removed the checks against the domination of the governing party, in power since 2002, these political dynamics went into reverse and paved the way for the institutional slide that is largely responsible for the lower-paced and lower-quality growth Turkey has been experiencing since about 2007." Ibid., abstract.

21 | "Violation by Article and by States (1959-2016)," European Court of Human Rights, http://www.echr.coe.int/Documents/Stats_violation_1959_2016_ENG.pdf.

22 | "Worldwide Governance Indicators," World Bank, 2015, dataset available for download at http://info.worldbank.org/governance/wgi/index.aspx#home.

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24 | "A World Bank Group Flagship Report," 14th edition, Doing Business, 2017, http://www.doingbusiness.org/~/media/wbg/doingbusiness/documents/profiles/country/tur.pdf.

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26 | "Index of Economic Freedom," The Heritage Foundation, 2017, http://www.heritage.org/index/country/turkey.

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28 | "Freedom in the World," Freedom House, 2017, https://freedomhouse.org/report/

freedom-world/2017/turkey.

29 | "The Economic Intelligence Unit's Democracy Index," *The Economist*, 2016, http://www.eiu.com/topic/democracy-index.

30 | "Scores of Democracy Ranking 2015," Democracy Ranking 2015, http://democracyranking.org/ranking/2015/data/Scores_of_the_Democracy_Ranking_2015_letter.pdf.

31 | "2017 Press Freedom Index," Reporters Without Borders, 2017, https://rsf.org/en/ranking/2017.

32 | "Democracy Barometer Data," Democracy Barometer, 2014, http://www.democracybarometer.org/dataset_en.html; see also Ersin Kalaycıoğlu, "Turkish Record on Democracy," unpublished paper at Sabanci University, Istanbul, 2016.

33 | Boratav, *Economic History of Turkey*, 93-106.

34 | Acemoğlu and Robinson*, Why Nations Fail*, 63-69.

35 | Max Weber, "Gesammelte Aussaetze zur Religionssoziologie I" (Tübingen: J.C.B.Mohr (Paul Siebeck), 1920), 535; Max Weber, "Gesammelte Ausaetze zur Religionssoziologie II" (Tübingen: J.C.B.Mohr (Paul Siebeck), 1921), 295-309.

36 | Karl Marx argued that ideology and ethics were no more than reflections of underlying material conditions, and the forces of production (land, labor, capital, and technology) determine the dynamic process of change in the social superstructure (religion, law, government). See Karl Marx, "A Contribution to the Critique of Political Economy," trans. S.W. Ryazanskay (Moscow: Progress Publishers, 1970). In contrast to Marx, in his "Protestant Ethic and the Spirit of Capitalism," Max Weber (1920 and 1921) argued that "it is the ethic that is given, any type of economy which necessities the people's possessing and ethos incompatible with that ethic will not develop; rather the emergence of an economy compatible with this ethic is inevitable." There seems to be obvious that there is a close relationship between institutions, political culture, and cultural heritage and a country's sociological and religious background in establishing any market and non-market institutions among developing countries.

37 | One of the best works on the impact of cultural values on economic development was made by Michio Morishima, *"Why has Japan Succeeded?" Western technology and the Japanese Ethos* (Cambridge University Press, 1982); See also Michio Morishima, "Why do I expect Japan to collapse?" Macquarie University Conference, Sydney, Australia, August 1998.

38 | As Kemal Derviş has noted, another danger awaits the economy, namely, "… repositioning of economic institutions, like the Central Bank, the Banking Regulation and Supervision Agency (BDDK), the energy watchdog and the competition authority, closer to politics again. The most important structural arm of the 2001 reforms is that those institutions, which audit and structure the economy, are separated from politics. Every citizen should know that they are treated the same. The interference of politics to daily market routine and private enterprise would collapse the country. This is the core problem and should be fixed." See, Kemal Derviş, "Turkey is not in crisis but there is serious mistrust," *Hürriyet Daily News*, February 3, 2014, http://www.hurriyetdailynews.com/turkey-is-not-in-crisis-but-there-is-serious-mistrust-says-economist-kemal-dervis.aspx?pageID=238&nid=61903.

39 | Siebert, "The Growth Performance of Developing Countries," 29-30.

40 | For an extensive analysis on the Turkish economy, see Bahri Yilmaz, "World Economic Crisis and its Impact on Turkish Economy," in *The EU as a Global Player*, ed. Boening et al. (Madrid: CEU Ediciones, (CEU) San Pablo University, July 2012) 45-61.

41 | Acemoğlu and Ucer, "The Ups and Downs of Turkish Growth," 26-27.

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