

**The London School of Economics and Political Science**

*Essays on the Political Economy of Development:*

*Elections, Public Investment and Regional Economic Growth*

*in post-2002 Turkey*

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## **Declaration**

I certify that the thesis I have presented for examination for the PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others. In the case of the paper “Distributive politics and regional development: assessing the territorial distribution of Turkey’s public investment”, I declare that the paper was jointly co-authored with Andrés Rodríguez-Pose. My own contribution comprises 60 per cent of the whole.

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## **Abstract**

Much academic debate in the tradition of economic geography has focused on how to design successful strategies to trigger local and regional development. How a more effective economic policy to tackle regional imbalances and inequalities should be developed remains hotly discussed. Too frequently, however, the effective delivery and implementation of policies across all cities and regions fail not simply because of wrong policy tools. Often, one of the challenges is, also, to sort out the institutional process so that incentives to achieve effectiveness arise among politicians and bureaucrats. This thesis specifically focuses on pork-barrelling and distributive politics, that is, how politicians selectively target cities and regions with more or less governmental goods to reinforce their electoral advantage. While a significant number of contributions have been made to this field of enquiry, numerous gaps remain in understanding the implications of distributive politics on regional economic development policymaking and performance. The dissertation critically examines four different aspects and effects of distributive politics, drawing from the case of post-2002 Turkey.

In spite of a significant burgeoning of this line of research across the world, questions about the extent to which ‘tactical allocative games’ prevail over technical policy-making criteria are frequently left unanswered. The first theme concerns the extent to which electoral factors prevail over technical considerations in the allocation of public investment by the central state to Turkey’s provinces. The evidence suggests that, while the government has allocated spending to reward its core constituencies, socioeconomic factors nonetheless remain the most relevant predictors of investment.

Relatedly, almost no research has so far explored whether pork-barrelling has any economic consequences on regional economies. The second theme explores whether votes for the incumbent party can ‘buy’ preferential policy treatment and regional economic growth. The results show how, after addressing potential endogeneity, economic performance is almost entirely explained by ‘standard’ drivers, primarily human capital endowment.

Third, the literature on distributive politics has frequently been legislature centric, in the sense that it has not paid adequate attention to the role played by bureaucratic agencies. The third paper explores whether the institutional characteristics of the agency in charge of the project cycle condition the attainment of publicly-oriented goals. Results point towards the argument that, to enhance policy effectiveness, bureaucracies must be not only capable and autonomous, but also accountable.

Finally, the literature still provides unclear evidence on whether shifts from highly competitive electoral environments towards electoral one-party hegemony may lead to higher – or to lower – levels of pork-barrelling. The fourth theme therefore explores whether the constant surge of power enjoyed by Turkey's AK Party has determined any change in the way public investment is allocated for tactical redistribution. Findings unexpectedly uncover decreasing levels of 'punishment' against opponents' strongholds. Such reduction, however, is accompanied by increasing populist spending throughout the country.

Overall, by providing novel evidence on the links between elections, public investment, and regional economic growth in post-2002 Turkey, the thesis contributes to advancing the understanding of the political economy of local and regional development.

*Keywords:* Public investment; electoral politics; pork-barrelling; regional economic growth; bureaucracies; state effectiveness; Turkey.

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## 1. Introduction

Much academic debate in the tradition of local and regional development has focused its attention on how to design successful strategies to trigger development. How a more effective economic policy to tackle regional imbalances and inequalities should be designed remains hotly discussed (inter alia: Barca, 2009; OECD, 2009; World Bank, 2009). Too frequently, however, the effective delivery and implementation of policies across all cities and regions fails not – only – because of wrong technical solutions. Rather, the problem is often – also – to transform the institutional environment so that developmental resources are equally and efficiently shared among social groups, and politicians and bureaucrats are held accountable to deliver sound policy outputs. In other words, the problem is not simply *what* kind of policies have been selected but, rather, *whether* the purported measures have been adequately implemented.

This thesis critically examines four different aspects and effects of distributive politics, that is, how politicians selectively target constituencies with more or less governmental monies and goods to reinforce their electoral advantage. A number of studies in political economy demonstrate that, in parallel to *grand/programmatic redistribution* based on technical rationales, a second type of redistribution is constantly taking place. This form of ‘politically-driven’ *tactical redistribution* (Dixit and Londregan, 1996) is likely to be carried out even when the same general development policy framework remains constant. According to the public choice literature, the reason behind the influence of politics on policy-making is that politicians are instrumental in their behaviour (Dunleavy, 1991) and are likely to deliver more to those voters who can keep them in power.

A significant number of contributions have been made to this field of enquiry. In their extensive analysis of the literature Golden and Min (2013), for example, have identified more than 150 studies on this topic. Nevertheless, numerous gaps remain in understanding the implications of distributive politics on regional economic development policymaking and performance.

The thesis draws from Turkey as a critical case study. In spite of Turkey's long established developmental state, the effectiveness of the country's development policies has been frequently questioned (inter alia: Barkey, 1990; Gezici and Hewings, 2004; Güneş-Ayata, 1994a, 1994b; Heper and Keyman, 1998). The literature provides two contrasting explanations for such potential ineffectiveness (Filiztekin, 2008). According to the first strand, the main issue behind the lack of clear policy success has been one of policy tools designed in a way not suitable to solve Turkey's socioeconomic problems. In other words, the stress of this first point of view is on the 'mismatch' between the problems faced by Turkey, and the policies implemented, frequently following one-size-fits-all solutions borrowed from international organisations (Ersoy and Taylor, 2012). The second explanation, by contrast, focuses on the gap existing between policy design and policy implementation (Gezici and Hewings, 2004).<sup>1</sup> This thesis explores this latter perspective.

Turkey has frequently suffered from political fragmentation and weak state autonomy from the government, resulting in policy-making flawed by poor governance, patronage, and political factionalism. Following the 2001 economic crisis, the 2002 elections witnessed the unexpected victory of the Justice and Welfare Party (*Adalet ve Kalkınma Partisi*, AK Party or AKP hereafter), led by former Prime Minister and current President of the Republic R.T. Erdoğan. After almost a decade of rampant corruption, poor economic performance and infighting under coalition governments, 2002 elections are considered as a real turning point in Turkish politics (Işık and Pınarcıoğlu, 2010; Zeyneloğlu, 2006).<sup>2</sup> The following years marked the start of the Accession Negotiations to the EU, while the newly elected government committed to significant public governance reforms. Yet, the concrete scope of change in the management and delivery of public policies has not been fully evaluated.

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<sup>1</sup> Interestingly, both views converge on the existence of a trade-off between the reduction of regional imbalances and the rate of overall national growth, and suggest that the Turkish state has significantly paid more emphasis on the latter than on the former.

<sup>2</sup> The combined share of votes for the five main parties in 1999 elections was for example 81 percent, while it dropped to a mere 24 percent in 2002 (Akarca and Başlevent, 2011).

The four analyses which form this dissertation concretely focus on the allocation and management of public investment. Similarly to other countries around the world, public investment in Turkey has constituted one of the main regional development policy tools adopted by the state. The role of governments in providing public capital is particularly relevant in developing and middle-income countries. In these contexts, states have frequently been the main economic game in town, in the sense that, along with their regulating prerogatives, the scope of their functions had to complement the gaps left by insufficient private capital accumulation (Evans, Huber, and Stephens, 2014; Kohli, 2004).

Overall, by providing novel evidence on the links between elections, public investment, and regional economic growth in post-2002 Turkey, the thesis contributes to advancing the understanding of the political economy of local and regional development.

The remainder of this introduction is organised as follows: Section 2 discusses the conceptual framework driving the overall research. Section 3 sketches the structure of the thesis. Section 4 describes the methodology adopted in the empirical analyses. Section 5 provides a detailed overview of each of the four main themes explored in this dissertation. Section 6 leads the discussion to an end, drawing the thesis' overall conclusions and implications, and identifying potential future areas of research.

## 2. Conceptual framework

The research is interdisciplinary. Its goal is to cut across the disciplines of economic geography, development studies, and political economy.

The thesis follows Pike, Rodríguez-Pose, and Tomaney's (2014) call. It aims to bridge the traditional divide existing between the economic geography literature on local and regional development – traditionally focused upon localities and regions in the historically lagging areas of the advanced capitalist world economies – and development studies – traditionally concerned with more recently industrializing nations and developing economies. As argued by Pike et al. (2014), each strand of literature has evolved with little or no interaction. Yet, such disconnect constrains synergies in the development of common explanations and policy formulation in addressing challenges which are not unique to either group of countries.

The research is also set within the broad literature interested in the link between institutions and regional economic development (Farole, Storper, and Rodríguez-Pose, 2010). In the last two decades, and particularly since the second half of the 1990s, the study of institutions as a fundamental explanatory element behind economic growth has extensively come to the fore, determining what was named as an ‘institutional turn’ in social sciences (Evans, 2005). Although the unitary essence of such ‘turn’ has been questioned (Jessop, 2001),<sup>3</sup> a common element is the intuition, hypothesis or (re)discovery about the importance of institutional factors behind economic processes. Institutions are considered to influence economic growth through three main channels: they have an effect on the efficiency of economic exchange by altering transaction costs; they influence the rate of technological change; and, last but not least, they influence the economy through political issues of redistribution, and ‘state effectiveness’ (Azulai et al., 2014). It is exactly the latter channel the one within which the current research topic is set.

Besley (2006) identifies two main classes of problems which may undermine good government and state effectiveness: *government* failures, and *political* failures.

Government failure may arise in *any* system of government, and may occur when the state intervening in the economy lacks the omniscient knowledge necessary to avoid policy mistakes being made, or when governments are pliable from powerful organised groups and hence develop policy benefits skewed towards such groups. Phenomena such as corruption, lobbying/bribing, and rent-seeking belong to this category. Political failure, more narrowly, relates to the set of problems arising when such power to control is allocated in *democratic* political systems. The current dissertation specifically focuses on the latter. Following Diaz-Cayeros, Estévez, and Magaloni (2012), it places electoral politics and electoral targeting – which we conceptualise as a ‘strategy of vote buying’ – at the core of the study of local and regional economic development. The selection of any policy goals and tools is inherently political, in the sense that it is based on different perceptions of what constitutes the societal goals. Nevertheless, forms of narrow electoral targeting signal the failure to promote the aggregation of all individuals’ interests into a ‘more public’ interest and to achieve long-term developmental ‘programmatic’ objectives (Piattoni, 2001b).

Electoral targeting should not be seen in monolithic terms but, rather, as a ladder that climbs upward according to the level at which narrow, particular interests are aggregated (Piattoni, 2001). This can occur at the lowest possible level, determining clientelism and cronyism networks pivoting around individuals and families; at a higher level, leading to pork-barrelling practices based on constituencies and local communities; and yet at higher levels. Such levels include consociationism based on religious or ethnic groups, and corporatism, based on professional groups. The interaction of tactical versus programmatic forms of redistribution with the level to which interests are aggregated leads to the matrix presented in Table 1. The thesis specifically addresses the second row, that is, it focuses on the provision of a public good such as public investment.

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<sup>3</sup> Jessop (2001) in particular argues that we should not speak about just one institutional turn but about at least three, respectively theoretically, empirically and policy-relatedly driven.

**Table 1.** Types of developmental policy programmes.

	<b>Tactical</b>	<b>Programmatic</b>
<b>Private</b>	Clientelism	Entitlements
<b>Public</b>	Pork-barreling, consociationism, corporativism	Functionalistic, formula-based allocations

Source: adapted from Diaz-Cayeros et al. (2012), Piattoni (2001a).

In line with the majority of studies on distributive politics, the thesis focuses on the forms of strategic redistribution influenced by the most common type of organized political interest groups, that is, political parties. This choice is grounded on the numerous contributions which have stressed the key role of parties behind Turkey's political life and cleavages (De Leon, Desai, and Tuğal, 2009; Kalaycıoğlu, 2001; Özbudun, 2013). As Kalaycıoğlu for example stresses:

“All political institutions are effectively penetrated by patronage, including nepotism (akrabalık), favoritism (torpil), regional-communal bonds (hemsehrî networks), religious solidarity, and other gemeinschaftlich links of agricultural and post-agricultural society. However, political parties stand out as the penultimate political institution of populist patronage” (Kalaycıoğlu, 2001, p. 63).

Indeed, in spite of periods such as the 1990s during which fragmentation and volatility weakened the role and coherence of the party system, throughout Turkey's republican history political parties have in general displayed a high degree of saliency in the political arena (De Leon, Desai, and Tuğal, 2009). Furthermore, sharing similarities with other Southern European countries such as Italy and Greece (Lanza and Lavdas, 2000), Turkey's interest politics and party politics have frequently shown strong links.



### 3. Structure of the thesis

The dissertation is structured into four papers, each attempting to answer a specific research question.

While advance in data availability has allowed the extension of research on distributive politics to a large number of countries, questions about the extent to which such ‘tactical allocative games’ prevail over technical policy-making criteria are frequently left unanswered. The first theme hence concerns the extent to which electoral factors prevail over technical considerations in the allocation of public investment by the central state to Turkey’s provinces.

**Paper 1.** Distributive politics and regional development: Assessing the territorial distribution of Turkey’s public investment.

*Co-authored with Andrés Rodríguez-Pose*

*Published in the Journal of Development Studies*

Relatedly, almost no research has so far explored whether electorally-driven ‘allocative games’ have any economic consequences. Indeed, in spite of a burgeoning interest in the politics of economic growth, the research specifically exploring the impact of political articulations on *regional* economic development has been considerably scarcer. The second theme explores whether votes for the incumbent party can ‘buy’ preferential policy treatment and regional economic development.

**Paper 2.** Votes and regional economic growth: Evidence from Turkey.

*Published in World Development*

Third, the literature exploring how politicians strategically use public resources has frequently been legislature centric, in the sense that it has mostly focused on the role of governments and parliamentarians, and much less on the specific role played by bureaucratic agencies. The third research theme shifts the attention to the latter. It explores whether the institutional characteristics of the economic bureaucracy in charge of managing the investment project cycle condition the extent to which public

policies remain effectively focused on publicly-oriented goals, as opposed to being used as a tool for particularistic redistribution and electoral rewarding.

**Paper 3.** Do bureaucracies enhance or constrain development policy effectiveness? Evidence from Turkey's central management of public investment.

Finally, the literature still provides unclear evidence on whether shifts from highly competitive electoral environments towards electoral one-party dominance may lead to higher – or to lower – levels of pork-barrelling. The fourth theme therefore explores whether the constant surge of power enjoyed by Turkey's AK Party and his leader Erdoğan has determined any change in the way public investment is allocated for tactical redistribution.

**Paper 4.** Does electoral hegemony increase pork-barrelling? Evidence from Turkey's public transport investment.

## 4. Methodology

The intellectual environment within economic geography during the last decades has been increasingly marked by a division between two main lines. On the one hand, the latest phase of the broader intellectual evolution of geography has been propelled by an increasing diversity of ‘heterodox approaches’ sharing renewed attention on the social and cultural elements in which economic processes are embedded. This process, broadly defined as a ‘socio-cultural turn’, was inspired by constructivist epistemologies, and called for a rethink of the balance/relation between the economic and the non-economic, socio-cultural elements in geographical explanations. On the other hand, particularly following the development of New Economic Geography, mainstream economists have increasingly turned their attention to spatial analysis and, strongly rooted in positivist epistemologies, have conceived abstract economic landscapes studied via formal mathematical models.

If such division has stimulated a relatively lively debate on the epistemological values that geography should achieve (inter alia: Amin and Thrift, 2000; Martin, 1999; Overman, 2004; Rodríguez-Pose, 2001; Storper, 2001), empirically these evolutions have been increasingly marked by the adoption of qualitative analytical methods by the former strand, and of quantitative statistical approaches by the latter one. Such methodological and epistemological debate is not unique to economic geography. Other disciplines, such as political science, have experienced similar long-standing debates about the inherent trade-offs between statistical ‘large-N’ analyses and in-depth, ‘small-N’ approaches (Lieberman, 2005).

As a way to contribute overcoming such methodological and epistemological deadlock, the current dissertation calls for the mixed use of both quantitative and qualitative research methods. This thesis hence rejects views according to which qualitative and quantitative research techniques are incompatible and, instead, follows methodological pluralism, that is, the use of different techniques to uncover different facets of the same social phenomenon (Elwood, 2010; Olsen, 2004).<sup>4</sup>

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<sup>4</sup> Interestingly Elwood (2010) stresses how, in spite of the significant division described above, geographers and other social scientists have been conducting mixed methods research for decades.

The first and second papers are deeply rooted in the quantitative approach. They take advantage of econometric analyses carried out on a panel dataset covering Turkey's 81 provinces over the period between 2004 and 2012. In both cases, the identification strategy first relies on a fixed-effects (FE) heteroscedasticity and autocorrelation robust estimator with province and annual time effects. The within-estimator has the advantage of controlling for unobserved characteristics which are time-invariant and province-specific, as well as for cross-sectional common shocks occurring over time. While in the first paper the analysis further controls for potential reverse causality between dependent and explanatory variables through a generalised-method-of-moments (GMM) system estimator, the second paper aims to identify the genuine direction of causality through a two-stage least square (2SLS) estimator and the development of a shift-share instrument which draws on Bartik's (1991) seminal work. These two papers have the advantage of uncovering general trends, but failed to provide an adequate explanation to the trends they expose.

The third paper aims to complement the research with more qualitative, in-depth analysis, where the 'small-N' approach is used to explain the quantitative results from the first paper. The analysis relies on fieldwork research carried out in Turkey's central economic bureaucracy. It specifically features 32 elite, in-depth semi-structured interviews, where the interviewees were selected integrating purposive and chain sampling techniques.

Finally, the fourth paper features a two-step mixed-methodology. It first draws on the econometric analysis of a sub-set of the panel used in the first two papers. In absence of robust instrumental variables to control for potential endogeneity, the triangulation of quantitative and qualitative data is then used to complement and validate the results obtained from the former. The paper is partly inspired by Lieberman's (2005) guidelines for nested analysis.

## **5. Aims and themes of the thesis**

### **5.1. Elections and the provision of public investment**

The first aim of the thesis is to explore the link between elections and the geographically heterogeneous distribution of public investment across the provinces of Turkey. The territorial targeting of public resources as a means of political tactics has been reported by an increasing number of studies (Hopkin, 2006). Such literature has explored factors ranging from regional grants and federal spending (Alperovich, 1984; Grossman, 1994; Case, 2001; Faguet, 2008; Tekeli and Kaplan, 2008; Luo et al., 2010; Larcinese, Snyder, and Testa, 2012), trade and industrial policy (McGillivray, 2004), infrastructure investments (Crain and Oakley, 1995; Castells and Solé-Ollé, 2005; Cadot et al., 2006; Golden and Picci, 2008; Kemmerling and Stephan, 2008), investment incentives schemes (Kemahlioğlu, 2008; Yavan, 2012), and the EU Cohesion Policy (Kemmerling and Bodestein, 2006; Crescenzi, 2009; Bouvet and Dall’erba, 2010).

At the same time, however, questions about the extent to which strategic distributive politics prevail over programmatic, technical criteria, are frequently left unanswered. As Golden and Min (2013, p. 14) point out: “indeed, it is perhaps surprising that any politician ever loses elected office given the impressive evidence that has been amassed showing the politicisation of the public purse.” Drawing from Turkey as a critical case study, the first theme concerns the extent to which electoral factors can prevail over technical considerations in the allocation of public investment.

The case of Turkey is particularly interesting for exploring this research puzzle. As a middle-income country with frequent episodes of poor governance, its conditions are ripe for pork-barrelling, clientelism, and patronage. At the same time, however, its long state and developmental traditions have led to the development of a comparatively capable central bureaucracy. As early as 1963 Turkey established an ad-hoc institution and a specific policy agenda aimed at curbing the high regional disparities which, however, still persist.

## **Paper 1. Distributive politics and regional development: Assessing the territorial distribution of Turkey's public investment**

Turkey is often perceived as a country with low bureaucratic capacity and prone to political manipulation and 'pork-barrel'. The article tests whether this is the case, by analysing the extent to which politics, rather than equity and efficiency criteria, have determined the geographical allocation of public investment across the country's 81 provinces between 2004 and 2012. It empirically answers to the following questions: (1) is the allocation of public investment determined primarily by political criteria? If so, which ones? And, (2) to what extent does the spatial allocation of central fixed capital investment also reflect functional economic criteria?

In spite of a few earlier related pieces of work analysing different kinds of governmental goods (Kemahlioğlu, 2008; Tekeli and Kaplan, 2008; Aytaç, 2014), this study is the first to explore the allocation of public investment executed by the central government in Turkey following the electoral victory of the AK Party in 2002.

In line with the theoretical predictions for a polity with closed-list, proportional, multi-member electoral districts, results show that the government has indeed rewarded its core supporters with additional expenditure. At the same time, socioeconomic factors remain nonetheless stronger predictors of public investment. Moreover, in contrast to redistributive regional development policy principles, the Turkish state seems to favour areas with a higher level of development over those with the most critical 'socioeconomic need'. Hence, the state is consciously or unconsciously pursuing a strategy of fostering agglomeration in relatively better-off areas (World Bank, 2009; Venables, 2010), rather than channelling more resources towards the poorest areas.

## **5.2. The link between electoral politics and regional economic performance**

The impact of electoral rules and other national political institutions on macroeconomic performance has been increasingly explored by scholars in the last twenty years (inter alia: Boix, 1998; Persson and Tabellini, 2003; Rajan and Zingales, 2006; Sen, 2013). In parallel to such political economy literature carried out at the national level, a considerable amount of research has been conducted at the sub-national one. This second corpus of work has frequently stressed the role of local political coalitions and local political entrepreneurialism in shaping governance structures conducive to economic growth (Apaydın, 2012; Bayırbağ, 2011; Wood and Valler, 2004; Wood, 2008). In spite of the existence of these two separate bodies of literature, very little research has been carried out to cross-fertilise them and specifically explore how votes and partisan articulations may influence local and regional economic development via their role in the construction of societal cleavages and the distribution of state goods.

Recently, the work by Buğra and Savaşkan (2012, 2014) has provided *prima facie* evidence suggesting that in polities lacking inclusive political institutions and where businesses are more reliant on state intervention – that is, many emerging and middle-income economies around the world – governments may influence sub-national economic performance. This may occur through the privileged provision of state goods to constituencies and people with the ‘right’ political affiliation (i.e. those that tend to vote for the incumbent government), at the expenses of opponents (i.e. those that tend to vote for the opposition). Yet, such hypothesis has not been the object of extensive empirical attention.

## **Paper 2. Votes and regional economic growth: Evidence from Turkey**

The paper empirically asks: in countries where governments' disproportionate power over the bureaucracy is coupled with a strong political polarisation, can votes for the national incumbent party 'buy' preferential policy treatment and faster regional economic growth? The analysis answers such question by defining a political economy model of regional growth and testing it in Turkey's 81 provinces over the period between 2004 and 2012.

The results of the analysis can first of all inform the burgeoning literature on distributive politics by providing a preliminary assessment of whether such 'allocative games' have any economic consequences. The research can also contribute to the academic debate about the link between institutions and regional economic growth (Farole et al., 2010) by assessing whether, and to what extent, votes and partisan articulations may influence subnational economic performance. Last but not least, if in the last fifteen years Turkey has undergone a significant number of institutional reforms aimed at strengthening the public governance, recent literature (Buğra and Savaşkan, 2014; Meyersson and Rodrik, 2014) has underlined – once again – the strong links between politics and economic development in the country. Assessing to what extent political cleavages between opponents and supporters of the central government influence sub-national economies can therefore shed further light on the form of such links.

Baseline results, obtained with a fixed effect (FE) estimator, confirm the existence of a reduced-form relationship between votes for the central government and regional economic growth. The preferential allocation of developmental government goods to provinces. Yet, the overall effect of electoral politics on economic growth is very modest. Besides, once the potential endogeneity between the dependent variable and the regressors is accounted for with an instrumental variable strategy, regional economic performance appears as almost entirely explained by standard socio-economic factors, primarily human capital endowment. The results are robust to the inclusion of standard variables which may drive regional economic growth, as well as to the inclusion of factors specifically able to control for the structural change that Turkey's emerging economy is undergoing.





### **5.3. Politicians, state bureaucracies, and policy effectiveness**

As Bertelli and Grose (2009) stress, the literature exploring how politicians strategically use public resources has usually been legislature centric, in the sense that although it recognises that allocations are made in the byways of bureaucracies, it has mostly focused its attention on the role of executives and legislative bodies. The third theme hence shifts its attention to the former, and explores whether the institutional characteristics of the economic bureaucracy in charge of managing the investment project cycle condition the extent to which public policies remain effectively focused on publicly-oriented goals, as opposed to being used as a tool for particularistic redistribution and electoral rewarding.

The importance of such research puzzle relates to the significant debate on how to foster state capacity, that is, the state's ability to provide sound policy outputs and deliver collective goods effectively, particularly in view of the potential or actual opposition of powerful social groups (Evans, Rueschmeyer, and Skocpol, 1985). In spite of the widespread agreement on how state capacity plays a key role for economic and social change (Evans et al., 2014; World Bank, 1997), the identification of the factors allowing the state to effectively provide such services and goods remains one of the central puzzles of development.

On the one hand, the literature on the developmental state (Amsden, 1989; Evans, 1995; Evans et al., 2014; Rauch and Evans, 1999; Wade, 1990) has argued that strong and insulated bureaucracies are key to the design of effective policies, particularly in countries where the political class is oriented to short-term, populist decision-making. On the other hand, however, the public choice literature (Huber and Shipan, 2001; Huber, Shipan, and Pfahler, 2001; Niskanen, 1971, 2001) has suggested that bureaucrats are motivated by self-interest, and hence need to be controlled by legislators to avoid predatory and rent-seeking behaviour. The article tries to reconcile these two distinct views, using the case of Turkey's management of public investment as a critical case study.

### **Paper 3. Do bureaucracies enhance or constrain development policy effectiveness? Evidence from Turkey's central management of public investment**

While Turkey's use of public monies has been frequently considered to be marred by populism, clientelism, and short-term electoral rewarding, the results from the first paper suggest that the allocation of public investment across Turkish provinces during the last decade has been more responsive to socioeconomic needs than electoral politics. The third paper hence aims to understand this empirical puzzle by: (1) exploring the extent to which the management of Turkey's public investment is effectively focused on publicly-oriented goals, as opposed to being used as a tool for particularistic redistribution and electoral rewarding; (2) explaining whether the institutional characteristics of the economic bureaucracy condition the attainment of publicly-oriented goals.

The analysis draws on elite, semi-structured interviews among Turkey's economic bureaucracy, as well as on the examination of national and international policy documents. To the best of my knowledge, the study is the first attempt to critically explore the micro-foundations of the Turkish public investment project cycle.

Results suggest that the existence of a capable and authoritative organisation directing the project cycle – the Ministry of Development (formerly State Planning Organisation) – has positively contributed to the technical management of investments. Empirical evidence also indicates how the organisation is insufficiently insulated vis-à-vis the government, and hence its ability to implement 'sound' policies is contingent on the political context. Such results confirm the literature on developmental states, which suggests how a key precondition for state effectiveness is bureaucratic autonomy. Nevertheless, the analysis also uncovers significant resistance from the bureaucrats against measures which would increase bureaucratic efficiency and transparency. Overall, the findings suggest that, to enhance policy-effectiveness, bureaucracies, in general, and the Turkish bureaucracy, in particular, must be not only capable and autonomous, but also accountable.

## **5.4. Strategic targeting and electoral hegemony**

An increasing body of research has showed how virtually every government provides distributive transfers for electoral purposes. Advances in the literature on distributive politics have started exploring why such strategic targeting is more intense under some institutional conditions than others. Different electoral systems, for example, provide different incentives to politicians, which may respond by providing different quantities of public goods. Yet, in spite of the increasing interest in the link between institutional conditions and distributive patterns, the literature still provides contrasting expectations on whether highly competitive electoral environments may be characterized by higher – or lower – levels of discretionary strategic allocations of public goods compared to institutional settings with one-party hegemonic political power.

On the one hand, the literature on public good provision under different political regimes suggests that nondemocratic rule is often accompanied by lower public good provision and quality (inter alia: Deacon, 2009; Kroth, Larcinese, and Wehner, 2015; Lake and Baum, 2001). On the other hand, Golden and Min (2013) point out how there is reason to surmise that distributive politics and pork-barrelling may be quantitatively more important in democratic than authoritarian regimes, and in settings with a large number of competing parties than in ones with low electoral competition (Lizzeri and Persico, 2005).

The thesis' final theme hence explores the extent to which these different hypotheses help explain how the use of Turkey's public transportation investment to reward supporting constituencies and punish opponents' ones has evolved along with the increasing authoritarian stance adopted by the incumbent AK Party and his charismatic leader and current President of the Republic R.T. Erdoğan. The analysis specifically focuses on the transportation sector because of its role in AKP's distributive politics. In other words, as the paper aims to study changes in pork-barrelling patterns, it follows a 'selection of the extreme case' (Gerring, 2007; Seawright and Gerring, 2008) where such dynamics are most evident.

#### **Paper 4. Does electoral hegemony increase pork-barrelling? Evidence from Turkey's transport infrastructure investment**

After its initial, unexpected electoral victory in 2002, Erdoğan's AK Party has constantly experienced an upsurge in its hegemonic power over Turkey's state, politics and society, turning progressively more authoritarian. As a result, commentators have recently argued that Turkey increasingly resembles a 'quasi-electoral authoritarian' regime (cf. Arbatlı, 2014). While a conspicuous amount of studies has explored the societal and political consequences of the country's recent authoritarian drift (inter alia: Acemoğlu, 2014; Arbatlı, 2014; Meyersson and Rodrik, 2014; Müftüler-Baç, Keyman, 2012), little research has been conducted to assess the transformations occurred in the management of Turkey's public resources. The paper draws from the analysis of public transport investment between 2004 and 2012, and aims to answer the following interrelated questions: (1) is the constant upsurge of power by Erdoğan and his party correlated to a change in the way public investment is allocated to provinces for tactical redistribution? (2) If yes, what potential dynamics may explain such result?

The empirical analysis suggests how the increase in the government power is unexpectedly correlated to a reduction in the way investment allocations to Turkish provinces is used to reward supporters and punish opponents. Such reduction in pork-barrelling was nonetheless determined only partly by a virtuous increase in policy effectiveness. By contrast, the analysis points to a shift from pork-barrelling to geographically less targeted populist spending. Such trend possibly reflects the government's desire to show their grand 'New Turkey' – a term rhetorically used to describe the allegedly 'new era' the country is experiencing under the AKP ruling –, as well as the rise of new powerful special-interest groups, as documented by Buğra and Savaşkan (2014).

## 6. Conclusions

This thesis has provided new evidence on the political economy of regional economic development by exploring four research questions related to the links between elections, public investment policy, and regional economic growth in post-2002 Turkey.

Exploring the geographical distribution of public investment by the central state across Turkey's provinces, the first paper shows that politics plays a non-negligible role in influencing investment allocations. The governing AK Party has not been immune to the temptation of favouring regions that voted for it with additional investments. Nonetheless, similarly to the results discussed by Hopkin (2001) for the case of clientelism in Spain, the magnitude of pork-barrelling is relatively low in comparison to the role played by socioeconomic factors. Indeed, after controlling for electoral politics variables, socioeconomic measures remain the most relevant predictors of public investment.

Relatedly, the second paper's results suggest the existence of a positive, bell-shaped relationship between the provincial votes for the central government and the rate of regional per capita GVA growth. They also provide preliminary evidence that such link is driven, at least in part, by the heterogeneous distribution of state goods across provinces, as theoretically foreseen. Such outcomes contrast, for example, with the case of France studied by Cadot et al. (2006), who did not find *any* effect of pork-barrelling on the economic performance of French regions. At the same time, however, the magnitude of such influence is small, not robust in one of the three empirical specifications tested, and in any case considerably less relevant than the one of the other socio-economic controls. Once the potential endogeneity between votes and regional growth is controlled for, the causal effect of the government's preferential treatment to electorally aligned constituencies in driving faster regional economic performance is even smaller. In other words, most of the correlation uncovered in the baseline specification is likely to be driven by the electoral support given by fast-growing provinces to the incumbent party. This finding confirms earlier research on the role of positive economic performance in reducing electoral volatility (Akarca and Tansel, 2006). If further research in this area is perhaps needed, the

results provide a preliminary picture of Turkey's economy where partisan factionalism has had modest effects and has not toppled standard drivers of regional growth.

Trying to explore the mechanisms which may explain the findings from the first paper, the third article has focused its attention on the role played by the economic bureaucracy in ensuring that investment decisions remain focused on publicly-oriented goals. In line with the developmental state literature, results suggest that the Ministry of Development's nature, comparatively more capable and authoritative than many other Turkish public organisations, has positively contributed to the sound, technical management of public investment. Results also show how the organisation and the project cycle are relatively well insulated from individual legislators, but not autonomous vis-à-vis the government, and hence the effective management of funds is strongly dependent on the political elite's 'will to deliver'. The first paper's results may therefore be contingent on the stable political environment of the 2000s and the fiscal reforms implemented following the 2001 economic crisis. In comparison, in periods such as the 1990s, when the political system was 'in a state of flux' (Sayarı, 2002), the bureaucracy was unable to shield from executives' pressure and deliver. Overall, results confirm Biddle and Milor (1995), who argued that it is less the absence of bureaucratic capacity than the lack of bureaucratic insulation to undermine Turkey's development policies effectiveness. At the same time, however, in line with the democratic accountability literature, the analysis also uncovers significant resistance from the bureaucracy against the implementation of reforms which would increase the organisation's efficiency and transparency. Furthermore, in contrast to conventional principal-agent models, which stress the potential for conflict between bureaucrats and politicians, the analysis discloses the over-sensitivity of part of the top bureaucrats to signals emanating from the political class (see Page, 2010, for a similar case).

While the analyses provided in the first two papers have shown a relatively positive picture about the impact of political cleavages on Turkey's economic policymaking and outcomes, the third paper provides a more nuanced view. Commentators have increasingly documented the autocratic and authoritarian stance adopted by Turkey's

former Prime Minister and current President of the Republic Erdoğan in recent years (Arbath, 2014; Meyersson and Rodrik, 2014).

The final paper describes how the increase in government powers is correlated with the use of public investment to reward supporting constituencies and punish political opponents. In contrast to expectations, the AKP's increasingly hegemonic powers are associated with a reduction in the way transport infrastructure investment is strategically targeted following electoral politics considerations. As Filiztekin and Bakış (2015) point out, the continuous ballot-box victories experienced by the AKP since its unexpected 2002 result deserve careful investigation. While earlier research has frequently linked such political success to the country's positive economic performance experienced in the 2000s, and to Turkey's rooted ideological cleavages (inter alia: Akarca and Tansel, 2006; Çarkoğlu, 2008),<sup>5</sup> the findings of the current analysis underline the ability of the government to, somehow, deliver public goods as a further reason (cf. Müftüler-Baç and Keyman, 2012, for a partly similar argument). At the same time, the analysis offers preliminary evidence suggesting that such trend was driven only partially by a virtuous increase in policy effectiveness. By contrast, the untargeted provision of transport infrastructure projects – mostly motorways – seems to have simply marked a shift from pork-barrelling to populist spending, a development which raises concerns about its long term economic sustainability and efficiency.

### **Implications for policy**

Although the data and the analyses come from Turkey, lessons learned from this specific case are relevant for other countries with comparable conditions.

First, the results from paper number one unveil a state which tends to allocate more investment to areas with a higher level of development over those with the most critical socioeconomic need. This aim clashes with the developmental policy

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<sup>5</sup> As Filiztekin and Bakış (2015) further point out, structural explanations are also influenced by location, in the sense that the same variables seem to have different impacts on voting behaviours depending on the context where voters live.



principles set out in the constitution and in the main planning documents about reducing regional imbalances. This finding is relevant for regional development policy-makers and planners if we consider the current debate on the potential existence a trade-off between aggregate economic efficiency and promoting convergence (cf. Farole, Rodríguez-Pose, and Storper, 2011; OECD, 2009; World Bank, 2009). The evidence from the analysis reveals that, in presence of scarce resources and a severe developmental gap between rich and poor areas of the country, the Turkish state has privileged the concentration of public goods in areas with a minimum level of development, possibly with the goal of privileging efficiency over redistribution.

Second, the overall results point out how one of the challenges of (regional) development policies is not only to figure out technical solutions but, also, to sort out the political process so that incentives to achieve effectiveness arise among politicians *and* bureaucrats. The influence of politics in the territorial allocation of public investment is hardly likely to be erased, neither something that is, if conducted in moderation, completely undesirable. It follows that any attempt to commit to a design of intergovernmental transfers *exclusively* based on technical criteria is not credible (Leon, 2010). At the same time, however, the design of measures able to reduce the politically discretionary use of funds and to increase the overall efficient use of public resources is a *condicio sine qua non* for public policy. Following Lohmann (2003), we suggest that the likely solution is to tame the issue at the margins, i.e. ridding of the *excessively discretionary* forms of political interference.

Such goals can be achieved by reforms aimed at de-politicising the civil service, separating the political sphere from the administrative tasks, and instilling new management practices within the public administration (Milio, 2010). Findings from the third paper indeed confirm that bureaucracies can play a significant role in promoting state effectiveness and taming the use of public goods for electoral targeting. Results in particular suggest that effective bureaucracies need to strike a balance between the two opposing dimensions of bureaucratic autonomy and accountability. As Azulai et al. (2014, p. 8) argue, good institutions “need to solve the conflict of interest between bureaucrats and politicians on one side and citizens on the other by providing mechanisms for political accountability, guaranteeing that

society's interests prevail over bureaucrats' and politicians' interests". If the balance between these two dimensions is tipped too far in favour of either of them, bureaucracies will face the risk of either becoming too powerful and seek rents (as seminally foreseen by Niskanen, 1971), or to become too weak to oppose the use of public goods by politicians for purely-strategic goals.

Relatedly, while most countries around the world have progressively moved towards an incipient decentralization (Rodríguez-Pose and Gill, 2003), results from contemporary Turkey confirm earlier research (Özcan, 2000, 2006; Prud'homme, 1995) on the risks of horizontal and vertical decentralization measures carried out in absence of a strong and competent state administration. The thesis does not argue the case for a traditional 'top-down' developmental state. Yet, results are a reminder of how a capable, shielded from political power, and accountable bureaucracy is a prerequisite to limit the problems which frequently cause 'democratic failures' (Besley, 2006) around the world. As suggested by Heper (1992), Turkey needs reforms aimed at increasing democratic participation in the policy process and taxpayers' monitoring over public spending. Actions which reduce the powers of the old top bureaucracy to increase the control by the ruling government – as occurred in recent years – will not otherwise lead to stronger institutions, but simply produce different – and in some ways more pernicious (Meyersson and Rodrik, 2014) – ineffective and unsustainable structures.

### **Extensions to the research**

As with any research, there is a series of limitations to this thesis, which offer a number of areas for future explorations.

First, the thesis has specifically focused on party politics, grounding such choice on the literature analyzing how parties capture Turkey's key social and political cleavages (Acemoğlu and Robinson, 2013; De Leon et al., 2009; Kalaycioğlu, 2001; Özbudun, 2013). Yet, the analyses cannot rule out that there may be other forms of non-electoral cleavages potentially affecting the political economy of public investment. Buğra and Savaşkan (2014) have, for example, pointed to the role played

by business associations in influencing state-economy relations. Although they acknowledge how the impact of parties and business organisations on Turkey's contemporary economic environment is closely knitted, and data on business organisations is extremely scarce, further quantitative research on the latter organisations would ideally complement the analyses carried out in this thesis. Relatedly, economic and political studies conducted at electoral levels are naturally not equipped with tools to offer answers to the question of who is potentially able to extract rents out of public projects and goods, even when these are allocated to areas most in need of them. Further research could, for example, build on Buğra and Savaşkan's (2014) and Özcan and Gündüz's (2015) seminal contributions and explore the extent to which the effects of the government's 'preferential treatment' have influenced individual people and business groups, rather than entire territories.

Second, although sub-national tiers of government do not play a major role in Turkey's public investment project cycle, further research on the effects of multilevel governance on investment decisions could perhaps provide insightful results, particularly considering how the lack of coordination between central and sub-national administrative units has been discussed as a problem in the literature (cf. Karadağ, Deliktaş, and Önder, 2004).

Last but not least, as discussed in Section 2, the thesis has focused its attention on the analysis of a public good such as public investment. By its own nature, such good is not excludable, meaning that the logics driving its use for electoral rewarding may be different from the ones driving the use of other state goods. Diaz-Cayeros et al. (2012) and Posner and Kramon (2011) for example argue that governments may use different types of goods to reward different groups at the same time. Further research on the management of private, excludable goods such as public tenders and investment incentives to the private sector may hence complement this thesis by testing whether in Turkey different types of government goods have indeed been used for different political objectives.

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## **Paper 1**

**Distributive politics and regional development: Assessing the territorial distribution of Turkey's public investment**

# **Distributive politics and regional development: Assessing the territorial distribution of Turkey's public investment**

Davide Luca, Andrés Rodríguez-Pose

## **Abstract**

Turkey is often perceived as a country with low bureaucratic capacity and prone to political manipulation and 'pork-barrel'. This article tests whether this is the case, by analysing the extent to which politics, rather than equity and efficiency criteria, have determined the geographical allocation of public investment across the 81 provinces of Turkey between 2005 and 2012. The results show that although the Turkish government has indeed channelled public expenditures to reward its core constituencies, socioeconomic factors remained the most relevant predictors of investment. Moreover, in contrast to official regional development policy principles, we uncover the concentration of public investment in areas with comparatively higher levels of development. We interpret this as the State bureaucracy's intentional strategy of focussing on efficiency by concentrating resources on 'the better off among the most in need'.

*Keywords:* Regional development policies; distributive politics; public investments; equity vs. efficiency; Turkey.

*JEL Classification:* H76; O12; O53; R12; R58.

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## **1. Introduction**

One of the most important decisions that governments face, both in rich and in emerging countries, is how to geographically allocate the public resources necessary for development, given each country's budget constraints. In contrast to conventional regional development approaches, which have seen public interventions as purely driven by technical socioeconomic considerations, a body of theoretical contributions and empirical studies at the interface between economics and political science has explored in the last two decades how the spatial distribution of public resources and government programmes is driven not only by efficiency and equity, but also by electoral concerns. Advances in data availability in the last decades have allowed the extension of this line of research to a large number of countries (Golden and Min, 2013). While much of economic and regional development literature has tended to overlook issues related to electoral politics and its influence on policy-making, the literature on distributive politics has precisely put how electoral politics shapes the allocation of governmental goods at its heart.

This article tries to make sense of contradictory hypotheses that can be found in the literature on regional development policy and on distributive politics, using Turkey as a critical case study. It will do so by analysing the extent to which electoral factors prevail over technical, functionalistic considerations in the allocation of public investment. The case of Turkey is particularly interesting. As an emerging country with frequent episodes of poor governance, its conditions are ripe for pork-barrelling and patronage. At the same time, however, its long state and developmental traditions have led to the development of a comparatively capable and, to a certain extent, independent central bureaucracy. As early as 1963 Turkey established an ad-hoc institution and a specific policy agenda aimed at curbing the high regional disparities which, however, still persist. In spite of a few earlier related pieces of work analysing different kinds of governmental goods (Kemahlioğlu, 2008; Tekeli and Kaplan, 2008; Aytaç, 2014), this study will be the first to explore the allocation of public investment executed by the central government in Turkey following the electoral victory of the Justice and Development Party (AKP) in 2002.

Empirically, the paper aims to answer to the following questions: (1) is the allocation of public investment determined primarily by political criteria? If so, which ones?; and, (2) in parallel we ask the extent to which the spatial allocation of central fixed capital investment also reflects functional economic criteria? Our estimation strategy is based on the adoption of both fixed-effects and generalised method of moments (GMM) (Arellano and Bover, 1995; Blundell and Bond, 1998) estimators in a dataset for Turkey's 81 provinces over the period between 2005 and 2012.

The literature has frequently stressed how Turkish politics has not revolved around the design of sound socio-economic policies, but has been fundamentally motivated by a desire by politicians to develop and sustain networks of clientelism and patronage (Heper and Keyman, 2006). Yet our results, which are robust against possible endogeneity, suggest a more nuanced picture. In line with the theoretical expectations for a polity with proportional, multi-member electoral districts, they show that while the Government does indeed reward its core supporters with additional expenditure, socioeconomic factors remain nonetheless stronger predictors of public investment. Moreover, in contrast to redistributive regional development policy principles, the Turkish state seems to favour areas with a higher level of development over those with the most critical 'socioeconomic need'. Hence, the State is consciously or unconsciously pursuing a strategy of fostering agglomeration in relatively better-off areas (World Bank, 2009; Venables, 2010), rather than channelling more resources towards the poorest areas.

The outline of the paper is as follows: section two provides an overview of the literature on the political economy of regional development policies and sets the research hypotheses. Section three introduces Turkey's institutional background. Section four discusses the data, the empirical variables, and the estimation strategy. Section five explores the results. Section six draws the discussion to a conclusion.

## **2. Electoral politics and the territorial distribution of public investments**

### **The political economy of regional development policies**

The design of policies aimed at regional development has traditionally tended to focus on the trade-off between equity and efficiency. How a more effective economic policy to tackle regional inequalities should be designed remains hotly discussed (for example, Barca, 2009; OECD, 2009; World Bank, 2009). The debate has, however, not paid adequate attention to the impact of electoral politics on the design of public policy. A growing body of research linking economics and political science has explored how in the real world public grants and investment programmes are also distributed on the basis of ‘purely political’ considerations (Persson, 1998). A number of studies in political economy demonstrate that, in parallel to grand/programmatic redistribution, a second type of redistribution is constantly taking place. This form of ‘politically-driven’ tactical redistribution (Dixit and Londregan, 1996) is likely to be carried on even when the same general development policy framework remains constant. According to the public choice literature, the reason behind the influence of politics on policy-making is that politicians are instrumental in their behaviour (Dunleavy, 1991) and are likely to deliver more to those voters who can keep them in power. Electoral politics may thus topple economics when it comes to the territorial distribution of public funds.

Such a ‘political market bias’ may be defined as even more relevant in contexts where the legitimacy of the state, as well as a strong civil society and formal institutions, are not fully developed, such as in many developing economies (Richardson and Townroe, 1986). In such environments, lower levels of bureaucratic capacity and stronger informal consensus building practices (Özcan, 2000, 2006) reduce the incentives/capacity to prevent the political use of public monies (Evans, 1995). It can therefore be expected that distributive politics maybe more pervasive in emerging countries characterised by lower state capacity, rather than in strong states. In the case of Turkey, for example, it has been frequently stressed that the implementation of sound public policies by the State has been affected by both pervasive bureaucratic

corruption, as well as by ubiquitous and inefficient networks of political clientelism and patronage (Danielson and Keleş, 1985; Heper and Keyman, 2006).

Overall, the specific geographical targeting of public resources as a means of political tactics has been reported by an increasing number of studies (Hopkin, 2006). Such literature has explored factors ranging from regional grants and federal spending (Alperovich, 1984; Grossman, 1994; Case, 2001; Faguet, 2008; Tekeli and Kaplan, 2008; Luo et al., 2010; Larcinese, Snyder, and Testa, 2012), trade and industrial policy (McGillivray, 2004), infrastructure investments (Crain and Oakley, 1995; Castells and Solé-Ollé, 2005; Cadot et al., 2006; Golden and Picci, 2008; Kemmerling and Stephan, 2008), investment incentives schemes (Kemahlioğlu, 2008; Yavan, 2012), and the EU Cohesion Policy (Kemmerling and Bodestein, 2006; Crescenzi, 2009; Bouvet and Dall’erba, 2010).

At the same time, however, questions about the extent to which distributive politics prevail over technical policy-making criteria, are frequently left unanswered. As Golden and Min (2013, p. 14) argue: “indeed, it is perhaps surprising that any politician ever loses elected office given the impressive evidence that has been amassed showing the politicisation of the public purse”. Drawing from the literature this article puts forward a model of resource allocation to assess the extent to which the geographical distribution of public investments aimed at the economic development of Turkish provinces depends on electoral politics or on functional economic criteria. We model public investment as driven by:

$$I = f(\text{Electoral politics, functional economic factors}) \quad (1)$$

We thus assume that the Turkish government may allocate public investment driven by either ‘tactical political redistribution’ considerations or by functional socioeconomic criteria.

### **The alternative allocative hypotheses**

We divide each of the two main principles into specific operational criteria. Each is explored through a separate research hypothesis. Drawing from the literature, we

identify three alternative distributive politics hypotheses, as well as two functional ones.

Within the literature on the links between politico-electoral systems and the geographical targeting of public resources, a ‘classic’ debate has flourished on whether distributive politics is carried out to cement existing or to buy new votes. According to the first explanation, the districts most likely to be favoured in the distribution of public resources will be the strongholds of the central governing party – at the expense of those supporting opposition parties – because risk-averse politicians will prefer strengthening their core electorates’ loyalties rather than embarking on politically-risky electoral investments (Cox and McCubbins, 1986). McGillivray (2004), in particular, has argued that the most relevant hypothesis behind distributive prediction will vary according to the political system. In line with her expectations for a country with a close-list, multi-member proportional representation electoral system, the first empirical hypothesis states:

*Hypothesis 1:* The higher the electoral support for the party in government in a Turkish province, the higher the public investment allocated to that province. Conversely, the higher the votes cast for opposition parties, the lower the amount of public investment.

By contrast, other scholars foresee models where utility-maximising politicians will first favour groups – or districts (Golden and Min, 2013) – with the highest potential electoral productivity gains (Dixit and Londregan, 1996), such as those most willing to switch their votes following economic favours. The second empirical hypothesis thus states:

*Hypothesis 2:* Investments are disproportionally allocated to electorally competitive districts, that is, those where the vote difference between the incumbent government’s party and its challenger is lower.

Last but not least, a recent work by Aytaç (2014) has stressed how the debate between core- versus swing-voter-models is only appropriate for analysing two-party competition settings, but falls short of accounting for distributive politics dynamics in presence of multi-party competition. His argument is that, in a setting of multiparty



competition, the incumbent party may have incentives to channel preferential resources to districts with both a high level of electoral competition and an ideologically close challenger, because in such places there may be more voters willing to switch their votes. As a consequence, the third empirical hypothesis states:

*Hypothesis 3:* Investments are disproportionally allocated to districts which are electorally competitive and where the main challenger is ideologically close to the incumbent party.

In contrast to the first three ‘electorally-motivated’ allocation criteria, functional principles would suggest that the allocation of developmental resources is driven by socioeconomic rationales. In particular, if the government is concerned with addressing regional economic imbalances, it should target investment spending towards poorer areas:

*Hypothesis 4:* the central government preferentially targets capital investments to regions where socioeconomic disadvantage is higher, that is where developmental needs are most urgent.

Alternatively, and in line with the findings of the New Economic Geography (Ottaviano and Puga, 1998; Venables, 2010) – conveyed in the policy recommendations of the World Bank’s World Development Report 2009 (World Bank, 2009) – emerging countries governments may, under the constraint of scarce resources, prefer to aim for national efficiency by targeting core regions and large agglomerations first, on the ground that growth and spatial redistribution goals are often difficult to reconcile. This was the strategy officially pursued by the Turkish state during the first decades of the Republic (see next paragraphs). The last empirical hypothesis therefore states:

*Hypothesis 5:* Investments are allocated according to socioeconomic criteria. In contrast to what stated in hypothesis 4, however, higher allocations are positively, rather than negatively, associated to higher levels of development.

### **3. Turkey and its institutional background**

Turkey offers an interesting case for analysing the link between electoral politics and public expenditure for different reasons. First, it was an early mover among developing countries in being concerned and addressing territorial disparities. As early as 1963, the country established an ad-hoc institution and a specific policy agenda aimed at curbing the high regional inequality that, however, still persists. In spite of such a long history of regional development policies, interventions have recorded a limited effectiveness – a fact strongly stressed by the European Commission since the start of Turkey’s EU-accession negotiations (Luca, 2011) and also acknowledged by the State bureaucracy (SPO, 2003b).

Second, the strong dependence of the allocation of investment on central government allows identifying programmatic and tactical redistribution trends more easily than in countries where multiple institutional levels are important political arena and play a role in the spatial distribution of resources. The fact that investments are spent by local branches of the central state also reduces the risk of omitted variable bias related to the different absorption capacity of regions in more decentralised systems.

Third, as Posner and Kramon (2011) empirically show, governments are likely to favour constituencies through targeting multiple goods at the same time. If such allocations are done to accommodate more than just one interest group, that is, if distributive patterns are not constant across types of goods, the results will likely become dependent on which good – among the range of pork types used by the government – researchers are focusing on. Research has already been conducted on the distribution of public incentives to foster private investments – one of the two main regional development policy tools adopted by the Turkish government – by Kemahlioğlu (2008) and Yavan (2012). To our best knowledge no research has yet concentrated on public fixed capital investments – the other key tool.

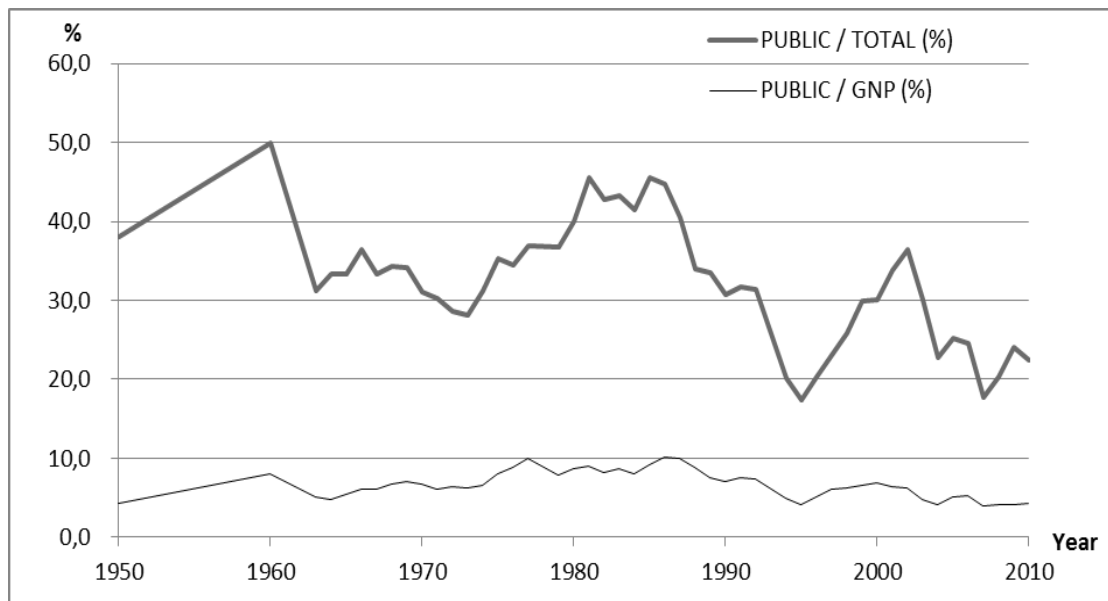
Last but not least, following Yeung (2001)’s call for social scientists to pay more attention to ‘neglected regions’ of the world, our analysis allows shedding more light on a country whose coverage in the international literature is rather low, in spite of its increasing role as a key Mediterranean and Eurasian power, as well as its status of

EU-candidate country. Investigating the causes that limit Turkey's success in reducing regional economic disparities is also relevant in the context of EU accession negotiations. Considering the size of the country and its extremely high territorial disparities between its Western and Eastern regions, if ever accepted into the European Union, the country may become the biggest recipient of Structural Funds.

### **Regional development policies in Turkey**

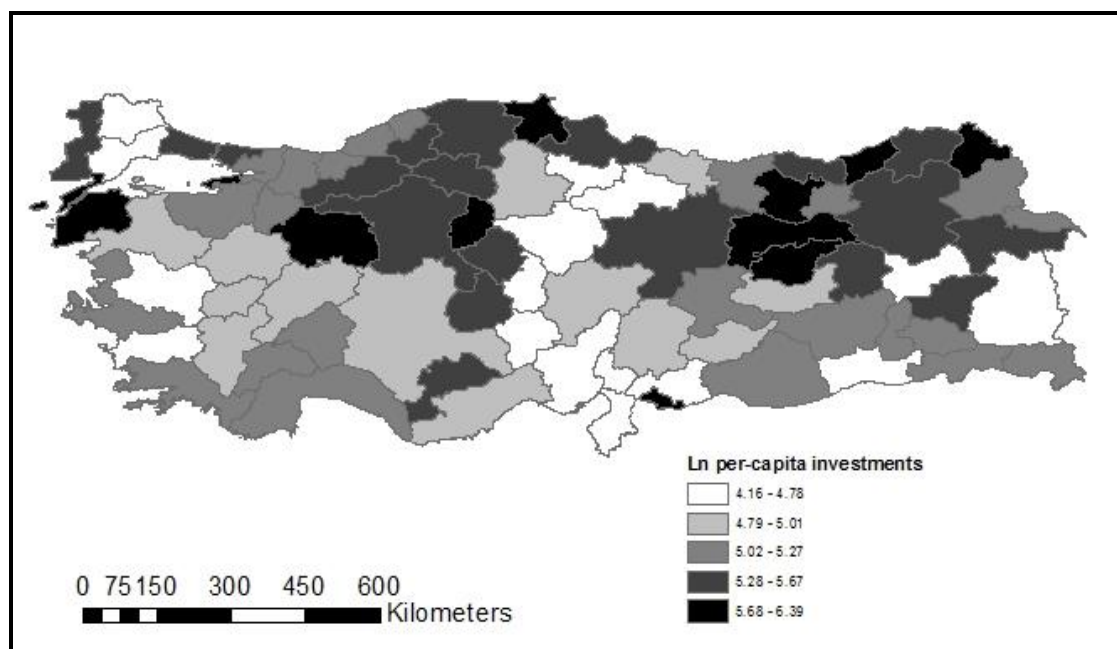
The specific balance between territorial equity and overall national efficiency that governments consider when implementing territorially-redistributive regional development policies differ from country to country, depending on societal values and on constitutional provisions (Solé-Ollé, 2010). During the four first republican decades of the Turkish State (1923-1962), the official priority was the concentration of investments in major urban areas with the aim of fostering the overall national growth (Eraydın, 2000). The shift in attention to regional inequalities happened however relatively early. In 1963 the country set up an ad-hoc institution in charge of multi-annual planning – the State Planning Organisation (Devlet Planlama Teşkilatı, SPO), recently transformed into the Ministry of Development – with a specific agenda aimed at reducing regional disparities. Article 166 of the 1982 Constitution explicitly calls for public policies to tackle regional imbalances through a “speedy, balanced, and harmonious development of industry and agriculture throughout the country”. The starting of the planning era was induced by the National Unity Committee following the 1960 military coup. As Özbudun and Ulusan (1980) stress, the military rulers were rather sympathetic to the concept of planning and the idea of an organism aimed not merely at the physical growth of the nation, but also at a peaceful transformation of the existing systems. Since then, the Ministry of Development (former SPO) has been in charge of preparing multiannual development plans highlighting the priorities and strategies of all Ministries and other public agencies. The plans are then implemented through annual programmes detailing out the budgetary allocation of public investments. While the plans are prepared by a supposedly independent, technical bureaucracy, their final approval is the prerogative of decision-makers.

**Figure 1.** Shares of public fixed-capital investment on total fixed-capital investment and on Gross National Product (GNP) (1950-2010).



Source: own elaboration on data from the Ministry of Development's database.

**Figure 2.** Geographical distribution of average per-capita public investment (2004-2012).



Source: own elaboration on data from the Ministry of Development's database.

Since the 1980s and particularly during the last decade, Turkey has also taken progressive steps towards an incipient decentralisation (Özcan and Turunç, 2008).

However, the country still remains one of the most centralised public finance systems among OECD countries (Blöchliger and Rabesona, 2009).

Figure 1 shows the share of public gross fixed capital investments in the Turkish economy. Despite a recent reduction, public investment still accounts for around five percent of the total GNP. This is higher than other OECD countries such as Germany, Italy, Portugal, or the United Kingdom (Gönenç et al., 2005).

Figure 2 shows the distribution of the average amount of fixed-capital public investments during the period of analysis. The average mean across 2004-2012, expressed in logarithmic terms, is 5.19 Turkish Lira per capita, with a standard deviation across provinces of 0.41.

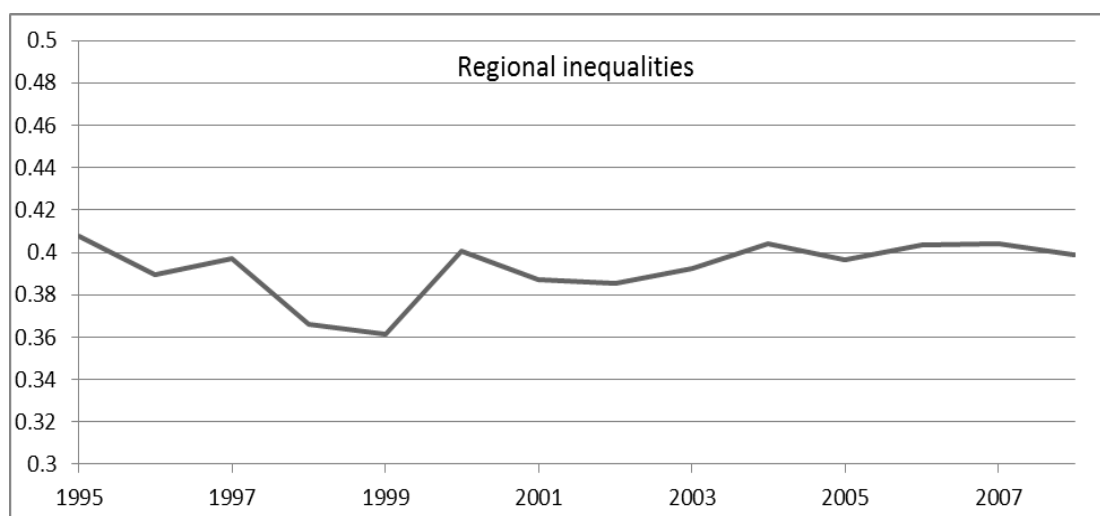
### **The evolution of regional disparities**

Despite the spread of wealth to some new regions during the last decades, particularly to areas neighbouring the traditional cores, Turkey continues to have a highly unequal spatial distribution of economic activities and, most importantly, of many social developmental indicators (Filiztekin and Celik, 2010).<sup>6</sup> In 2003, for example, the GDP per capita in the richest NUTS2 region (TR10, Istanbul) was 1.43 times the national average while in the poorest region (TRB2, Bitlis, Hakkari, Muş, Van) it represented only 0.35 times the national medium value (Turkstat, 2006). Moreover, the majority of recent studies – all analysing the period up to the early 2000s – do not find evidence of inter-regional convergence (Karaman and Doğruel, 2011), neither in terms of per-capita GPD (Gezici and Hewings 2004, 2007), nor new firms creation (Gaygısız and Koksall, 2003), or unemployment rates (Filiztekin, 2009). Gezici and Hewings' (2007) results in particular indicate how a contrasting trend of reduction in intra-regional disparities has been accompanied by an increase in inter-regional ones.

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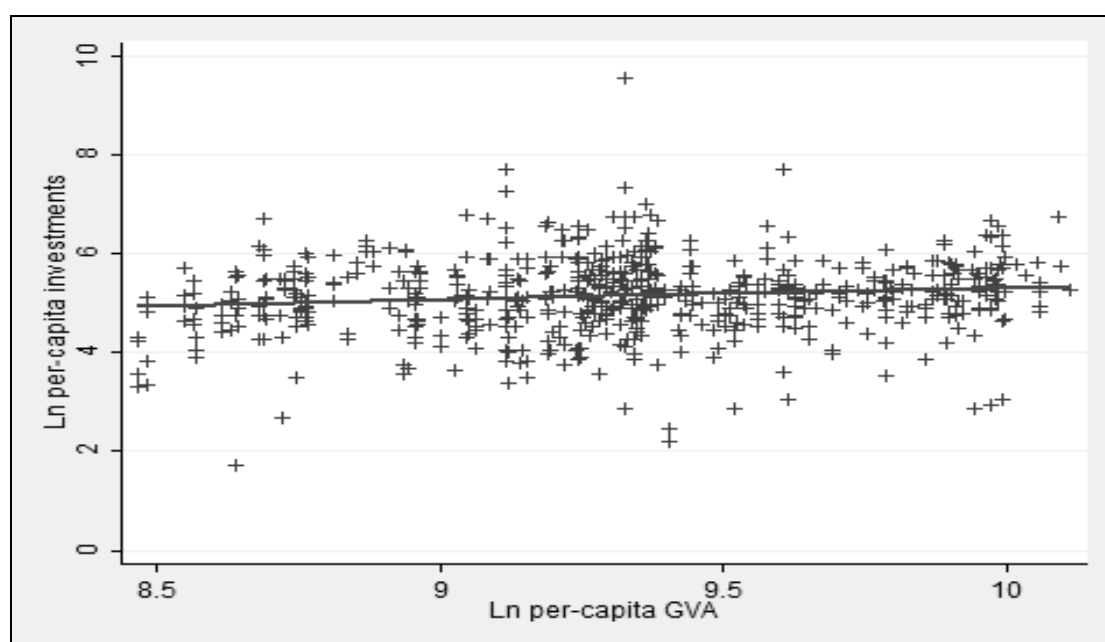
<sup>6</sup> In 2010, the country's Human Development Index was ranked 83<sup>rd</sup> in the world, behind any other EU, Eastern European and Balkan country. In the same year, Turkey's Gender Gap Index ranked 126<sup>th</sup>, well behind several Asian, African and Arab states (Bardak and Majcher-Teleon, 2011). All these low rankings closely reflect the spatially uneven human and economic development in the country, with all five poorest NUTS2 regions located in the east and the southeast of the country, that is, the area with the highest concentration of ethnic Kurdish people.

**Figure 3.** Change in regional disparities: population-weighted coefficient of variation of NUTS2 regions' per-capita Gross Value Added (1995-2008).



Source: own elaboration on data from OECD's regional database.

**Figure 4.** Scatter plot of per-capita public investment (Ln) and per-capita regional Gross Value Added (GVA) (2004-2012).



Source: own elaboration.

Figure 3 shows the population-weighted coefficient of variation for regional gross value added for recent years. It confirms the lack of clear reductions in inter-regional disparities among provinces.

Figure 4 shows the correlation between per capita fixed-capital investments annually allocated to each province between 2004 and 2012 and the levels of provincial per capital Gross Value Added (GVA. Yearly values are pooled). While a correlation between economic outputs and the amount of investments allocated is visible, there is considerable variation above and below the fitted line. The empirical analysis will uncover which factors explain such variation. Figure 4 suggests that the allocation patterns of public investment may be more complex than those behind a simple regional redistributive framework.

### **Turkey's institutional background**

Despite a history of more than 16 multiparty elections and parliamentary rules, Turkey has had a difficult time being accepted as a democratic regime by international political and academic circles (Sayarı, 2002). Frequent military coups, internal armed conflicts and human rights abuses have traditionally tarnished its reputation. Nonetheless, Turkey has enjoyed relative political stability and democratic elections since 1983. In its current form, the Turkish Republic is a closed-list proportional-representation electoral system democracy, with the d'Hondt formula and a national threshold of 10percent used to translate votes into parliament seats. As such, electors vote only for a political party, with the party itself controlling which candidates are seated in parliament. Electoral districts coincide with provinces. In the 2011 national elections the number of MPs elected from each province ranged between one (Bayburt) and 85 (Istanbul), with a mean value of 6,8.

In the 1980s and 1990s the Turkish political landscape was characterised by political fragmentation, extremely high electoral volatility (Hazama, 2003) and a party system 'in a state of flux' (Sayarı, 2002, p. 17). The 2000s brought about a neater and more stable political panorama. The 2002 elections can be considered a real watershed in Turkish politics, marked by the rapid rise of a newly formed party (AKP), which has remained in power since.

Similarly to contemporaneous changes in many other countries, the last two decades also witnessed a decrease in the Turkish political polarisation based on left/right ideologies. Many analysts suggest an increase in the cleavages built around two main

social dimensions: religiosity versus laicism and Turkish versus ethnic Kurdish nationalisms (Öniş, 1997; Güneş-Ayata and Ayata, 2002; Çarkoğlu and Hinich, 2006).<sup>7</sup> The first social fault line is likely to be captured by the contraposition between the pro-Islamic ruling party and the main, secular opposition one; the second, instead, will need to be controlled for in the empirical analysis.

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<sup>7</sup> Kurds make up Turkey's most populous minority. Depending on different estimates, they constitute between 12 and 20 per cent of the population (Mutlu, 1996; Güneş-Ayata and Ayata, 2002). Exact counts are not available since 1965.



## 4. Empirical analysis

### Empirical model and variables

In order to test our hypotheses, the overall per capita commitments to each province are regressed on their potential political and socioeconomic determinants. The analysis will focus on Turkish provinces (NUTS3 level), because this is a) the specific level coinciding with central electoral districts; b) the sub-national level at which investments allocations are recorded; and c) the most meaningful administrative partition between local municipalities and the central State.

Following the literature and the theoretical discussion of section (2), the empirical model adopts the following form:

$$Y_{i,t} = \beta_1 P_{i,t-1} + \beta_2 X_{i,t-1} + \alpha_i + n_t + \varepsilon_{i,t} \quad (2)$$

Where ( $i$  and  $t$  denote provinces and years respectively);  $Y_{i,t}$  is the total amount of per capita national fixed-capital investment allocated to each province;  $P_{i,t-1}$  and  $X_{i,t-1}$  represent vectors of electoral and socioeconomic factors respectively;<sup>8</sup>  $\alpha_i$  and  $n_t$  are respectively province and year fixed-effects, and  $\varepsilon_{i,t}$  is the error term.

The dependent and the explanatory variables, summarised in Appendix 1, are described in the following paragraphs.

#### *Dependent variable*

*Per capita fixed public investments:* total values to each province include investments in agriculture, manufacturing, transport, housing, education, health and other public services. Investments in mining and energy are not included on the basis that they are more likely to be allocated according to first nature geographical characteristics and to national priorities respectively. All the values are expressed in 1000 Turkish Lira

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<sup>8</sup> Investment projects are very likely to stretch over many years so allocations, as well, may be correlated over time. While this fact may support the inclusion of the dependent variable's lagged value  $Y_{i,t-1}$  among the regressors, we reject such choice because of the bias that affects FE estimators of dynamic models in the order of  $1/T$ , that is a level too high for our short time span. Tests available on request confirm that the inclusion of lagged investments into regressions do not alter the results.

(TL) at 2012 prices and in logarithmic terms in order to control for non-linear relations.<sup>9</sup>

#### *Political independent variables*

*Party vote shares.* Party percentage vote shares at national elections are the first, most immediate variables able to capture the political clout of provinces. By including both the incumbent party as well as the main opposition ones, we can also test whether funding allocations following electoral criteria mainly reward constituencies aligned with the incumbent governments and/or punish those voting for the opposition. We exclusively focus on the central political level, as the main regional development decisions are still strongly in the grip of Ankara's powers.

*Kurdish nationalism.* The variable is proxied by the share of votes cast for the pro-Kurdish party. While the literature based on European countries suggests that regions with strong separatist parties are likely to receive more resources (Kemmerling and Stephan, 2008), our expectation in the case of the Kurdish party<sup>10</sup> will be opposite (Danielson and Keleş, 1985), since constant armed tensions in Kurd-inhabited areas and armed conflict may have limited public investment (Yeğen, 1999).

*Electoral competition.* Such variable is constructed as the negative of the absolute value of the vote difference between the incumbent party and its main challenger in each province. The challenger is the second party where the AKP has garnered the

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<sup>9</sup> A significant proportion of investments are registered as part of multi-provincial projects, so it is not possible to match it with any specific province. Over 2004-2012, multi-provincial projects accounted on average for 45.67 per cent of the total public investment portfolio, with an annual standard deviation from the period's overall mean of 5.10. Typical multi-provincial projects are the construction of roads linking more than one province, the setting up of network of laboratories, or the national wholesale purchase of equipment and machineries. Our analysis only concentrates on the investments that can be attributed to a single province. Data limitation is – alas – one of the biggest problems in empirical research, particularly in emerging countries. Aware that the data may potentially be imprecise and in absence of any other viable solution, we follow the same approach as earlier researchers who have worked on public investments in Turkey (Deliktaş et al. 2008; Karadağ et al., 2004; Celebioğlu and Dall'erba, 2010).

<sup>10</sup> Under the allegation of supporting the Kurdistan Workers' Party (PKK), the main Kurdish parties have been repeatedly banned over the years. We therefore consider, at each election, the party in place at that moment. Since running as independent candidates and then agglomerating into a single group after elections has been a strategy to circumvent the seat allocation minimum national thresholds, we jointly consider Kurdish and independent votes.

greatest number of votes or an opposition party, when this is not the case. As we take the negative of the absolute value, we will expect the variable to show a positive sign, meaning that provinces where the vote difference is lower receive comparatively more funds.

*Malapportionment.* This variable consists in the Ln of the ratio between the total provincial population (as a proxy for the number of voters) and the number of seats allocated in each constituency. It is an indicator of electoral productivity, measuring the profitability for politicians of ‘investing’ in a constituency, depending on how many votes are needed to win a seat.

*Close competitor.* Following Aytaç (2014), we first create a dummy equal to one for the provinces where the AKP competes with ideologically close parties. These include the MHP, as well as the True Path Party (*Doğru Yol Partisi*, DYP) and the Motherland Party (*Anavatan Partisi*, ANAP) in the 2002 elections. The variable is then constructed as the interaction of the dummy with electoral competition.

#### *Socioeconomic independent variables*

Due to changes in early 2000s in data collection by Turkstat, provincial data on GDP for the whole period of analysis does not exist. We then try to control for the contextual socioeconomic disadvantage through two alternative variables.

*Contextual development level.* The first variable is the Provincial Development Index (PDI), a composite indicator developed by the Ministry of Development through principal component analysis. It takes into account economic (statistics on manufacturing, constructions, agriculture, value added, investments and finance) and, to a lesser extent, social factors (demographic structure, employment, education, health and various developmental parameters). While we are aware that the index may not fully be a proxy for contextual wealth, there is no viable alternative to control for contextual development levels at provincial level.

*Wealth.* To check for the robustness of our results, we also include the annual growth rate of per-capita GVA. This variable is, however, only available for NUTS II regions and not for provinces.

Wealth variables measure potential *contextual disadvantage*, without either questioning the *structural reasons* behind poverty, or the possible ways to get away from it. We therefore also control for key growth-retarding/enhancing socio-demographic characteristics (Rodríguez-Pose, 1999) which may drive allocative choices, namely: sectorial economic structure, educational attainment, rural/urban imbalances, and total population.

*Manufacturing employment.* We concentrate on the % of employment in manufacturing on total employment because of the central role that industrialisation has played in the structural transformation of Turkey's economy in recent years.

*Education attainments.* We use the percentage of students in higher education (vocational training and university) on total population, as a proxy for the level of education in each province.

*Rural population.* In a country such as Turkey characterised by late development and a rapid, recent urbanisation, the regional developmental inequalities are likely to be correlated with the urban/rural divide, which we proxy by the percentage of population living in rural areas.

*Population:* while the other socioeconomic regressors, as well as the dependent variable, are normalised by population of the province, population is included in the equation as it is considered as an important driver of investment allocations.

## **Sample and data**

The analysis employs a panel data set covering 81 Turkish provinces over the period 2005-2012. Basic data on national public investments per province was derived from the Ministry of Development.

Electoral data for the 2002, 2007, and 2011 elections was gathered from the European Election Database, as well as from Turkey's Electoral High Committee. We annualised political variables by extending electoral results over each legislature. Electoral wards within metropolitan provinces are not taken into account and

therefore national elections' data are collected for provinces, which constitute the power bases of political parties and one of the most important units of political representation (Güvenç and Kırmancı, 2009).

Population information was obtained merging 2005-2009 OECD figures with Turkstat regional database's 2007-2011 figures. Data on the Provincial Development Index comes from interpolating the values from the State Planning Organisation (1996, 2003) and Baday-Yıldız et al. (2010). Other socioeconomic data were obtained from Turkstat's regional database and interpolated in case of missing years.

A review of data sources as well as summary statistics for each variable are provided in Appendices 1 and 2.

### **Identification strategies**

Our research hypotheses aim to test to what extent, and through which channels, political factors can be treated as determinants of the allocation of investments. Our strategy to explore such questions requires the use of two different estimators, both of which exploit the panel data variation between the three different electoral contests. We first adopt a fixed-effects (FE) heteroscedasticity and autocorrelation robust estimator with province and annual time effects. Such an estimator has the advantage of controlling for all the possible omitted variables that are idiosyncratic to provinces. To control for potential serial and spatial correlation, we estimate robust standard errors adjusted for clustering at the provincial level (81 clusters). Considering that plans for time  $t$  are prepared in advance and then approved by fall/winter of time  $t-1$ , we include a one-year lag between right and left-side variables, which will also help minimise the endogeneity between dependent and explanatory variables.

Although grounded in an ample body of works, our first estimation strategy may suffer from potential endogeneity caused by reverse causality, since higher/lower investments by the central government at election  $t$  may increase/decrease the votes given to the governing party at subsequent polls (Larcinese et al., 2012). To control for the robustness of FE results, our solution is to transform equation (2) using first difference

$$\Delta Y_{i,t} = \Delta \beta_1 X_{i,t-1} + \Delta \beta_2 P_{i,t-1} + \alpha_i + \eta_t + \varepsilon_{i,t} \quad (3)$$

and then to use Arellano and Bover (1995) and Blundell and Bond's (1998) GMM robust system estimator, which instruments differences – equation (3) – with past levels, and levels – equation (2) – with past differences. The adoption of GMM-system rather than GMM-difference (Arellano and Bond, 1991) is motivated by the latter's severe constraints in presence of time series persistence, since lagged variable levels are extremely weak instruments for subsequent first-differences (Bond et al. 2001). The issue of low within-unit variance is particularly relevant in the case of political, electoral and institutional factors, which are by nature rather persistent over time (Plumper and Troeger, 2007).<sup>11</sup> Robust, cluster and small options are adopted to obtain heteroscedasticity- and autocorrelation-robust standard errors as well as small-sample corrections to the covariance matrix estimate (Roodman, 2009b).

While system-GMM is an attractive technique to handle regressors' potential endogeneity, internal instrumenting is also known for suffering from a series of limitations, including the risks of accepting results that are invalid because of weak instruments (Roodman, 2009a). In order to minimise such risks, the analysis restricts the range of lags to two and five,<sup>12</sup> while also collapsing the instrument matrix as proposed by Roodman (2009b).

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<sup>11</sup> We also considered the use of a Fixed-Effect Vector Decomposition estimator (Plumper and Troeger, 2007), eventually discarded for the inconsistency risks underlined by Breusch et al. (2011).

<sup>12</sup> As a further check, we have also tried different instrument solutions, such as adopting lags two to six, lags to two to four or only lags two and three. In spite of such changes, both estimates and significance levels were overall constant.

## 5. Results

### Baseline results

Table 1 presents the results obtained with the linear FE estimator. The first three columns show the estimates corresponding to the distributive politics hypotheses H.1, H.2 and H.3. The fourth column presents the results for hypotheses H.4 and H.5 (which refer to the same variables, but foresee opposite signs). The final column shows the full regression, which represents our preferred model.

**Table 1.** Fixed Effects (FE) estimation of the empirical model.

	(H.1) core- voter	(H.2) electoral competition	(H.3) close competitor	(H.4/5) equity/ efficiency	Full model
AKP votes	0.0216** (0.0100)				0.0126* (0.00675)
CHP votes	-0.0374*** (0.0139)				-0.0107 (0.00711)
MHP votes	0.0234 (0.0170)				0.0157 (0.0119)
Kurdish party votes	0.0130 (0.0134)				0.0120* (0.00701)
Electoral competition		0.000940 (0.00366)	0.00142 (0.00349)		-0.00151 (0.00302)
Malapportionment		-3.377*** (0.885)	-3.363*** (0.883)		-0.00395 (0.234)
Close competitor			-0.00261 (0.00449)		-0.000404 (0.00434)
Development index				0.455** (0.188)	0.365* (0.187)
Per-capita GVA growth				2.073*** (0.778)	1.800** (0.838)
Manufacturing empl.				0.00149 (0.0136)	0.00480 (0.0140)
Education attainment				-0.00887*** (0.000877)	-0.00839*** (0.000872)
Rural population				0.0747*** (0.0235)	0.0730*** (0.0228)
Total population				-3.36e-07 (2.05e-07)	-2.82e-07 (2.18e-07)
Constant	4.519*** (0.571)	44.07*** (10.24)	43.91*** (10.22)	2.120** (0.879)	1.578 (3.015)
Observations	567	567	567	567	567
R-squared	0.133	0.136	0.137	0.175	0.184
Number of id	81	81	81	81	81
Province FE	yes	yes	yes	yes	yes
Year FE	yes	yes	yes	yes	yes

Notes: The dependent variable is expressed in logarithms. All explanatory variables are lagged by one year. Robust, clustered standard errors in parentheses. \*\*\* p<0.01, \*\* p<0.05, \* p<0.1.

Starting from the first research hypothesis – which argues that opportunistic distributive politics aims at cementing the electoral support of the incumbent party’s core voters – the results in column one show clear and statistically significant evidence of a preferential allocation of public investment to provinces where votes for the AKP are higher. The finding is robust to the inclusion of socioeconomic controls (last column). By contrast, the coefficient indicating how provinces voting for the main opposition party – the CHP – receive fewer funds is only significant in the first model, but not robust to the inclusion of the other political variables and the socioeconomic controls.

The coefficient for the third party – the MHP – is not significant, suggesting that the main redistributive politics are played around the two main parties. This may be because the MHP has limited support and this support is concentrated in a limited number of provinces. The coefficient for the variable indicating support for the pro-Kurdish party is positive and insignificant when taken alone (first model), but turns statistically significant in the final model. Considering that Kurdish votes are highly concentrated in areas with a high degree of underdevelopment, we consider the second estimate – that is, where development differentials are controlled for – more precise. This result s contradicts earlier research, which suggested that, during the 1980s and 1990s, mostly Kurdish-inhabited areas were significantly disadvantaged in the allocation of public investment.

Model two addresses the electoral competition hypothesis, according to which a disproportionate amount of resources will be allocated to provinces where the electoral race is tight. The variable shows the expected positive sign, yet is not significant across any of the specifications. Similarly, the result for malapportionment, despite having the expected negative sign, are not statistically significant after introducing the socioeconomic controls. The last distributive politics hypothesis is explored in model three. In contrast to Aytaç’s (2014) results for the allocation of conditional cash transfers to Turkey’s low-income population, in our estimates the close competitor variable is insignificant and does not display the expected sign.



Overall, our distributive politics estimates support McGillivray (2004)'s theoretical predictions that in a closed-list, proportional multi-member electoral system distributive dynamics are mostly pursued with the aim of cementing the loyalty of core supporters, rather than to win swing constituencies or win over close competitors.

The last two hypotheses refer to functional economic criteria. As we stressed earlier, the reduction of regional developmental disparities has been one of Turkey's developmental policy principles since 1963. We have therefore argued in hypothesis H.4 that public investment may have been used as a tool to address territorial imbalances. The results show contrasting evidence. Out of the six indicators adopted to control for socioeconomic disadvantage, four are statistically significant, namely the composite indicator of contextual development, the per-capita regional GVA growth rate, the education attainments, and the rate of rural population. By contrast, the rate of manufacturing employment and the total population are insignificant. Within the four significant variables, the estimates seem to suggest that two contrasting trends are occurring. While the ratio of rural population is positively correlated to investments and the level of education negatively – thus confirming the progressive role of the development policy – the provincial development index (PDI) is strongly and positively, rather than negatively, correlated to the amount of funding received by regions. Holding other variables constant, a one point increase in the index is correlated to an increase (column four) of nearly 40 per cent of per-capita investments. The result is robust against the inclusion of the electoral variables (column five). Such a fact, in particular, seems to support those who suggest that investments are indeed allocated according to socioeconomic criteria but, rather than with the aim of reducing regional disparities, with the objective of concentrating resources in already developed areas. In this respect, the results support the final hypothesis H.5, as well as the earlier findings by Danielson and Keleş (1985) and Gezici and Hewings (2004). An important difference from such earlier studies however exists: on the one hand, the progressive character of investments is blurred into a strategy based on privileging areas with a minimum level of development. On the other hand, however, the Ministry of Development also seems to be channelling investments towards areas with higher levels of socioeconomic structural disadvantage, that is, characterised by a lower level of education and a higher degree

of rural population. A one point increase in the percentage of rural population, for example, is correlated to an increase (column four and five) of more than 7 per cent in per-capita investments. Aggregate fiscal flows may hide heterogeneous policies, as policy-makers have a range of tools at their disposal and are likely to use them to achieve different goals at the same time. We can therefore expect to find different – even contradictory – drivers of aggregate public investment. In the specific Turkish case we believe that an explanation of the apparently contradictory results may lie in the role that Anatolian, middle cities have played in recent development trends. Results are coherent with the Growth Centres Strategy put in place in recent years (particularly in the 9<sup>th</sup> National Development Plan covering the period 2007-2013), according to which specific growth poles have to be selected for the concentration of public investments in underdeveloped areas. Economic development studies have frequently discussed whether there is a trade-off between reducing regional inequality and fostering overall efficiency (Hewings, 1978; Osberg, 1995; Martin, 2008). The ‘New Economic Geography’ strand has in particular provided evidence supporting the existence of such trade-off by exploring the economic benefits originating from the concentration of activities and resources in areas with economies of agglomeration (Ottaviano and Puga, 1998; Venables, 2010). Drawing on such corpus of literature, the 2009 World Development Report (World Bank, 2009) made a strong case for the adoption of agglomeration-enhancing policies by emerging countries. Interestingly, our results for Turkey suggest a ‘middle-ground’ policy scenario, where the ‘standard’ regional development principle of reducing regional inequalities by targeting the worst-off regions is coupled with a strategy of concentration in areas with a minimum level of development. In other words, our results suggest that the government has favoured ‘the better off among the most in need’.

### **Robustness checks**

Testing for the robustness of the FE estimator’s results to possible endogeneity issues, GMM-system outputs are provided in Table 2. The specification tests on the validity of instruments are included in the lower section of the Table. As required, the AR serial correlation tests show that only first-order but not second-order serial

correlation is detected. The Hansen J-test also confirms the appropriateness of the instruments, whose count does not overfit the models.

**Table 2.** GMM-system estimation of the empirical model.

	(H.1) core- voter	(H.2) electoral competition	(H.3) close competitor	(H.4/5) equity/ efficiency	Full model
AKP votes	-0.00444 (0.0101)				0.0212** (0.00981)
CHP votes	-0.0117 (0.0116)				-0.0110 (0.0111)
MHP votes	-0.0412*** (0.0110)				-0.00795 (0.00974)
Kurdish party votes	-0.0141* (0.00725)				0.0155** (0.00695)
Electoral competition		0.000407 (0.00443)	0.000780 (0.00433)		0.00784 (0.00473)
Malapportionment		-0.773*** (0.168)	-0.861*** (0.164)		-1.112*** (0.206)
Close competitor			0.00687* (0.00386)		0.00332 (0.00375)
Development index				0.435** (0.204)	0.409*** (0.141)
Per-capita GVA growth				-1.128 (1.283)	-1.055 (1.176)
Manufacturing empl.				0.0284* (0.0154)	0.000194 (0.00711)
Education attainment				0.00409** (0.00168)	0.00378*** (0.00140)
Rural population				0.0593*** (0.0192)	0.0157 (0.0119)
Total population				[dropped]	[dropped]
Constant	5.429*** (0.596)	13.52*** (1.980)	14.59*** (1.931)	2.105** (0.894)	17.41*** (3.045)
Observations	567	567	567	567	567
Number of id	81	81	81	81	81
Province FE	yes	yes	yes	yes	yes
Year FE	yes	yes	yes	yes	yes
F-test	18.64 (0.000)	23.28 (0.000)	20.36 (0.000)	13.72 (0.000)	13.24 (0.000)
AR (1)	-5.37 (0.000)	-5.41 (0.000)	-5.44 (0.000)	-5.37 (0.000)	-5.41 (0.000)
AR (2)	-0.20 (0.843)	-0.03 (0.980)	-0.00 (0.997)	0.36 (0.717)	0.84 (0.399)
N. of instruments	28	14	19	36	67
Hansen	18.40 (0.301)	6.32 (0.177)	11.22 (0.189)	23.67 (0.481)	42.56 (0.694)

Notes: The dependent variable is expressed in logarithms. All explanatory variables are lagged by one year. Robust, clustered standard errors in parentheses, \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. Total population was automatically dropped because of multicollinearity.

The political variables of hypothesis H.1, when analysed without controlling for developmental divides (that is, taken alone, in column one), are only partly consistent with the FE estimates. Yet, once the socioeconomic variables are accounted for (column five), the GMM-system estimator provides results similar to those of Table 1. The coefficient for the governing party regains the expected sign and statistical significance, while also witnessing an increase in magnitude. The coefficient for the third party continues to be insignificant, while Kurdish nationalism turns again positive and significant. The coefficients for hypotheses H.2 and H.3 now show the expected sign across all specifications. Yet, electoral competition is insignificant both on its own (column two) and when introducing controls, while the close competitor variable is now significant when considered alone (column three), but not in the full model. Among the socioeconomic variables of hypotheses H.4 and H.5, the level of development and the ratio of rural population maintain the same signs of the FE estimator (although the latter turns insignificant after the inclusion of the electoral variables). Manufacturing employment now becomes significant in column four, but not in the full model. Interestingly, the annual growth rate of regional per-capita GVA is now strongly insignificant, while education attainments remain statistically significant but display a positive, rather than negative sign, providing further evidence in support of the efficiency hypothesis. Our preferred model is again that accounting for both electoral and socioeconomic variables. The full-model GMM results are broadly consistent with those of Table 1, suggesting that the endogeneity of electoral results is not a serious issue in the first, linear estimates. Considering this, as well as the higher reliability of the FE estimator compared to GMM, our preferred results remain the FE ones.

In Section 5, we have interpreted the socioeconomic results as evidence supporting a state policy favouring efficiency. At the same time, however, the fact that investment tended to flow more towards areas with higher levels of development may hide a tendency by Turkey's socioeconomic elites to capture public investment. A second robustness test hence addresses the efficiency hypothesis H.5. We have strong reasons to expect that in Turkey elites largely tend to live in the main cities, mostly Istanbul, Ankara and, to a certain extent, also Izmir. The role of Istanbul as the economic hub of the country is well documented. Political power is concentrated in Ankara, the capital. An analytical way to disentangle the efficiency hypothesis from

an ‘elite capture story’ is thus to run the whole model excluding the three main cities from the sample. The estimates of running this regression are presented in the second column of Appendix 4. They confirm the validity of the main results: the coefficients maintain the same signs and degree of statistical significance, while the overall fit of the models increases slightly.

Finally, we run a placebo regression where the one-year lag between dependent and explanatory variables is excluded. If our theoretical framework is correct, the electoral results should *only* influence *future* allocations – and not current ones – because of the time needed to translate strategic political decisions into allocation plans. The third column of Appendix 4 shows that, while socio-economic variables retain very similar coefficients and statistical significance – suggesting that socio-economic variables change slowly over time – political ones now turn insignificant altogether.

## **Discussion**

According to the literature exploring the pervasiveness of Turkey’s patronage politics and poor governance, we would have expected that the geographical allocation of public monies would have been prevalently determined by political machinations. Our results, however, show a more nuanced picture.

On the one hand the analysis provides robust evidence in support of core-voter distributive politics patterns, confirming the literature’s theoretical predictions. We uncover statistically significant evidence showing how provinces supporting the incumbent government have, *ceteris paribus*, received more per-capita public investment. In light of the political protests that sprung in Turkey since summer 2013, such outcomes confirm the picture of Turkey as a country with a socio-political fracture between pro-government supporters and anti-government, secular supporters. On the other hand, however, and in spite of their relevance as a driver of investments, political factors are less important than socioeconomic criteria. So, how can this conundrum be explained?

The most straightforward answer is to interpret our results as a proof of the ‘relative strength’ of the Turkish State. Such explanation relates to the concept of *embedded autonomy* (Evans, 1995; Kohli, 2004) put forward to explain the factors that account for successful state intervention in promoting economic development. Evans (1995), in particular, argues that the developmental state’s effectiveness rests upon two key factors: first, the extent to which a competent bureaucracy, autonomous from powerful rent-seeking groups, exists; and, second, the embeddedness of the state in society. Compared to other emerging countries, Turkey has indeed a long and established tradition of comparatively strong (and centralised) bureaucracy. Such discourse may be particularly relevant for planning which, since the creation of the State Planning Organisation (currently Ministry of Development), has been staffed by a trained and competent state bureaucratic elite. Besides, following the economic crisis of 2001 and the start of the Accession Negotiations to the EU, Turkey has undergone a series of public reforms inspired by good governance principles (Özdemir-Tsarouhas, 2013) which may have increased its bureaucratic capacity. At the same time, the extent to which Turkey’s state is effectively characterised by embedded autonomy is a topic on which the academic debate has not reached a conclusion. Given our findings, the question remains open to further explorations.

Two analytical caveats need, nevertheless, to be considered. First, while partisanship is likely to capture a relevant political fault line, there may be other dimensions as relevant as partisan articulations. In spite of the literature showing the key role played by political parties in Turkey (De Leon et al., 2009), other forms of non-electoral political competition may be shaping the geographical distribution of public investment. Buğra and Savaşkan (2014) have for example pointed to the role played by business associations in influencing state-economy relations. Although they acknowledge how the impact of parties and business organisations on Turkey’s contemporary economic environment is closely knitted, further quantitative research on business organisations would ideally complement our analysis on partisanship. Furthermore, research has shown how, particularly in emerging countries, preferences in the allocation of public monies may be related to ethnicity or religious allegiance rather than to organised interests (for example, Banerjee and Somanathan, 2007). While the partisan fault line between the AKP and the main secular opposition party is likely to run parallel to other societal divisions – and hence should also capture

non-partisan interests based, for example, on religiosity – lack of quantitative data does not allow us to fully explore and rule out alternative dimensions of political competition. Second, economic and political studies conducted at electoral levels – such as this article – are naturally badly equipped with tools to offer answers to the question of *who*, within a given district, is able to extract rents out of public projects and goods, even when these are allocated to areas most in need of them. Consequently, political manipulations may occur not in the allocation of investments across provinces (pork-barrelling) but at much smaller scale, such as in the local management of resources and in micro-level clientelistic networks. The cases of local economic development initiatives studied by Özcan (2006) in the new industrial Anatolian town of Kayseri provides evidence in this direction – a process difficult to be captured unless adopting a qualitative, in-depth approach.

## 6. Conclusions

This article has provided new evidence on Turkey's political economy of development by examining whether in the last decade the geographical allocation of public investment has followed the socioeconomic policy principles officially set out by the State, or electoral political criteria.

In line with much of the literature on distributive politics, our results show that politics plays a non-negligible role in influencing public investment allocations. The governing AK Party has not been immune to the temptation of favouring regions that voted for it with additional investments. Nonetheless, similarly to the results discussed by (Hopkin, 2001) for the case of Spain, the magnitude of pork-barrel is relatively low in comparison to the role played by socioeconomic factors. Indeed, after controlling for electoral politics variables, socioeconomic measures remain the most relevant predictors of public investment. In spite of the earlier evidence showing high levels of widespread political patronage and clientelism (Heper and Keyman, 2006), and idiosyncratically controlled group loyalties (Özcan, 2006) occurring in Turkey, our findings point to Turkey's bureaucratic capacity and *embedded autonomy* (Evans, 1995). Our results may hence suggest that Turkey's state tradition has stopped electoral politics from completely dominating over technical policy criteria. Compared to other emerging countries, Turkey possesses a long tradition of bureaucratic elite 'who acted in the name of the state by assuming virtually complete autonomy from other groups in the polity, including the political elite' (Heper and Keyman, 2006, p. 259). Our results may thus confirm the comparative strength of the country's centralised and bureaucratic state apparatus, as well as the effectiveness of the public governance reforms implemented in the early 2000s (Özdemir Tsarouhas, 2013).

The results also unveil – somewhat unexpectedly for a country which has placed great emphasis in addressing territorial disparities – a state which tends to favour areas with a higher level of development over the ones with the most critical socioeconomic need. This aim clashes with the developmental policy principles set out in the Constitution and in the main planning document about reducing regional imbalances. This finding is relevant for regional development policy-makers and planners in that



it shows how, in presence of scarce resources and a severe developmental gap between rich and poor areas of the country, the state has privileged the concentration of public resources in areas with a minimum level of development, possibly with the goal of privileging efficiency over redistribution.

Finally, although our results provide considerable food for thought, a methodological caveat has to be taken into consideration. Following the literature showing the importance of parties in shaping Turkey's political arena (De Leon et al., 2009), our analysis has focused on electoral political cleavages. Yet, there may be other forms of non-electoral political competition affecting the territorial distribution of public investment that the analysis is unable to capture. Buğra and Savaşkan (2014) have, for example, pointed to the role played by business associations in influencing state-economy relations. While the partisan fault line between the AKP and the main secular opposition party is likely to run parallel to other societal divisions – and hence capture certain forms of non-partisan interests – lack of data limits our capacity to fully rule out alternative hypotheses. Moreover, quantitative analyses as those performed in the current article, while having important advantages, are ill-equipped to explore the informal channels which may be at the heart of the patronage and clientelistic networks behind pork-barrel decisions – a topic which opens up further room for research, based on the use of quantitative *as well as qualitative* analysis.

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## Appendices

### Appendix 1. Description of variables and sources of data.

Variable	Variable description	Source
Dependent variable: fixed capital public investment	Ln of the per-capita fixed capital investment annually allocated to each province	Ministry of Development (former State Planning Organisation)
AKP votes	% of votes for the AKP	Turkey's electoral High Committee, European Election Database
CHP votes	% of votes for the CHP	Turkey's electoral High Committee, European Election Database
MHP votes	% of votes for the MHP	Turkey's electoral High Committee, European Election Database
Kurdish party votes	% of votes for the Kurdish party and for independent candidates	Turkey's electoral High Committee, European Election Database
Electoral competition	Negative absolute value of the vote difference between the incumbent party and its main challenger in each province	Own calculation on data from the Turkey's electoral High Committee, European Election Database
Malapportionment	Ln of the ratio between the province's total population and the number of parliamentary seats allocated to it.	Own calculation
Close competitor	Interaction between electoral competition and a dummy variable equal to 1 when the AKP's main competitor is the MHP, and the DYP and ANAP (in the case of 2002 elections)	Own calculation
Development index	Provincial Development Index	Own calculation from: State Planning Organisation (1996, 2003a), Baday-Yıldız, Sivri and Berber (2010)
Per-capita GVA growth	Annual growth rate of NUTS II regional per-capita Gross Value Added	Own calculation on data from the Turkstat Regional Database
Manufacturing employment	% employment in manufacturing	Turkstat Regional Database
Education attainments	% high education (vocational training and university) students on the total population	Turkstat Regional Database
Rural population	% of rural population	Turkstat Regional Database
Total population	Total number of inhabitants per province	OECD, Turkstat Regional Database



## Appendix 2. Summary statistics.

<i>Variable</i>	Mean	St. Dev.	Minimum	Maximum
Log Investments	5.257	0.728	1.728	9.542
AKP votes	45.037	14.811	6.5	84.82
CHP votes	18.541	9.506	2.01	52.5
MHP votes	12.759	7.129	0	44.9
Kurdish party votes	9.345	16.417	0	70.8
Electoral competition	-26.18	15.363	-70.4	-0.1
Malapportionment	11.582	0.287	10.524	12.151
Close competitor	-8.804	15.969	-56.6	0
Development index	-0.001	0.987	-1.659	4.138
Per-capita GVA growth	0.359	0.456	-0.097	0.164
Manufacturing employment	20.963	9.444	4.7	46.3
Education attainments	4.557	19.931	0.039	254.955
Rural population	37.849	13.5677	1.01	70.084
Total population	898500.2	1538670	65126	1.40e+07

Source: own elaboration.

## Appendix 3. Pairwise correlations among variables.

	Invest.	AKP votes	CHP votes	MHP votes	Kurdish votes	El. comp.	Malapport.	Close compet.	Dev. index	GVA growth	Manuf. Empl.	Ed. attainments	Rural pop.	Total pop.
Investments	1													
AKP votes	0.1562*	1												
CHP votes	0.0424	-0.3043*	1											
MHP votes	0.0068	0.0719	0.1888*	1										
Kurdish votes	0.0002	-0.3959*	-0.3106*	-0.5377*	1									
El. Comp.	-0.1190*	-0.6412*	0.4297*	0.1167*	0.0645	1								
Malapport.	-0.2540*	0.0015	0.2536*	-0.0878*	-0.0416	0.1657*	1							
Close comp.	-0.0013	-0.3673*	0.3808*	-0.2492*	0.2398*	0.4149*	0.1922*	1						
Dev. Index	-0.001	-0.0733	0.4839*	0.2723*	-0.5231*	0.2206*	0.4123*	0.0944*	1					
GVA growth	0.0179	-0.0781*	-0.0828*	-0.1897*	0.1037*	-0.0005	0.0028	0.009	-0.1093	1				
Manuf. Empl.	-0.0373	-0.0049	0.3014*	0.0721	-0.3048*	0.05	0.3874*	-0.0074	0.5961*	-0.0441	1			
Ed. Attain.	0.1145*	0.0008	0.1220*	0.0508	-0.0950*	0.0676	0.0527	0.0384	0.1593*	-0.0384	0.2646*	1		
Rural pop.	-0.0115	-0.0872*	-0.1678*	-0.1135*	0.1664*	0.0197	0.4303*	-0.1006*	-0.6677*	0.0465	-0.5568	-0.2162*	1	
Total pop.	-0.0328	-0.02	0.2055*	-0.0586	-0.0631	0.1271*	0.4706*	0.1303*	0.6551*	-0.0396	0.3203*	-0.0142	-0.5255*	1

Source: own elaboration.

#### Appendix 4. Robustness tests: FE estimation of the empirical model.

VARIABLES	(1) Baseline estimate from Table 1	(2) Excluding Istanbul, Ankara and Izmir	(3) Placebo
AKP votes	0.0126* (0.00675)	0.0124* (0.00682)	0.00105 (0.00699)
CHP votes	-0.0107 (0.00711)	-0.0120* (0.00693)	-0.00274 (0.00708)
MHP votes	0.0157 (0.0119)	0.0162 (0.0118)	0.0115 (0.0111)
Kurdish party votes	0.0120* (0.00701)	0.0116 (0.00703)	0.00510 (0.00629)
Electoral competition	-0.00151 (0.00302)	-0.00173 (0.00296)	-0.00318 (0.00291)
Malapportionment	-0.00395 (0.234)	-0.0703 (0.229)	-0.0314 (0.265)
Close competitor	-0.000404 (0.00434)	-0.000184 (0.00428)	-0.000867 (0.00371)
Development index	0.365* (0.187)	0.370** (0.184)	0.316** (0.128)
Per-capita GVA growth	1.800** (0.838)	1.780** (0.843)	0.898 (0.849)
Manufacturing empl.	0.00480 (0.0140)	0.00862 (0.0139)	0.0347** (0.0142)
Education attainment	-0.00839*** (0.000872)	-0.00848*** (0.000915)	-0.00583*** (0.000744)
Rural population	0.0730*** (0.0228)	0.0753*** (0.0228)	0.0940*** (0.0346)
Total population	-2.82e-07 (2.18e-07)	4.46e-07 (6.36e-07)	-3.19e-07* (1.80e-07)
Constant	1.578 (3.015)	1.573 (3.180)	0.896 (3.792)
Observations	567	546	567
R-squared	0.184	0.195	0.159
Number of id	81	78	81
Prov FE	yes	yes	yes
Year FE	yes	yes	yes

Notes: The dependent variable is expressed in logarithms. All explanatory variables are lagged by one year only in models (1) and (2), while they are not in model (3). Robust standard errors in parentheses,

\*\*\* p<0.01, \*\* p<0.05, \* p<0.1.

## **Paper 2**

### **Votes and regional economic growth: Evidence from Turkey**

# **Votes and regional economic growth: Evidence from Turkey**

Davide Luca

## **Abstract**

In countries where governments' disproportionate power over the bureaucracy is coupled with a strong political polarisation, can votes for the national incumbent party 'buy' preferential policy treatment and faster regional economic growth? The article tests such question on Turkey's 81 provinces over 2004-2012. Results uncover a link between votes and faster regional growth, as well as a small influence of preferential allocations in explaining it. Yet, after addressing potential endogeneity, economic performance is almost entirely explained by standard drivers, primarily human capital endowment. Results suggest that the impact of electorally motivated distributive politics on regions' economic performance is extremely limited.

*Key words:* Distributive politics; votes; political cleavages; regional economic growth; Middle-East; Turkey.

*JEL classification:* H70; O43; O53; R11; R58.

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## 1. Introduction

The importance of political institutions in ensuring the efficient functioning of markets and consequently fostering economic performance has become central in much of the literature dealing with economic growth and development. A growing consensus in particular agrees on how one of the key prerequisites for sustained economic growth is the existence of *inclusive institutions* preventing narrow political groups to monopolise public resources and economic power (Acemoğlu and Robinson, 2012). In spite of such burgeoning interest on the politics of economic growth, the research specifically exploring the impact of political articulations on *regional* economic development has been significantly scarcer. Recently, the work by Buğra and Savaşkan (2012, 2014) on the links between politics, religion and business has provided preliminary evidence suggesting that in polities lacking inclusive political institutions and where businesses are more reliant on state intervention – that is, many emerging countries around the world –, governments may influence sub-national economic performance via the privileged provision of State goods to constituencies with the right political affiliation, at the expenses of opponents. Yet, such hypothesis has not received extensive empirical attention. The existence of such gap in the literature is particularly puzzling considering the significant increase of research exploring distributive politics (Golden and Min, 2013), that is, how politicians selectively targets constituencies with more or less governmental monies and goods to reinforce their electoral advantage. While distributive politics have been explored on an increasing number of countries and governmental goods, almost no studies have so far explored their final economic implications.

The current article aims at filling this gap by defining a political economy model of regional growth and testing it to Turkey's 81 provinces over 2004-2012. Turkey's case is informative because the country has traditionally suffered from social and political polarisation and considerable subordination of the bureaucracy to incumbent politicians. First of all, the results can inform the burgeoning literature on distributive politics by providing a preliminary assessment of whether such 'allocative' games' have any economic consequences. The research can also contribute to the academic debate about the link between institutions and regional economic growth (Farole,

Storper, and Rodríguez-Pose, 2010) by assessing whether, and to what extent, votes and partisan articulations may influence subnational economic performance. Last but not least, if in the last fifteen years Turkey has undergone a significant number of institutional reforms aimed at strengthening the public governance, recent literature (Buğra and Savaşkan, 2014; Meyersson and Rodrik, 2014) has underlined – once again – the strong links between politics and economic development in the country. Assessing to what extent political cleavages between opponents and supporters of the central Government influence sub-national economies can therefore shed further light on the form of such links.

Baseline results, obtained with a Fixed Effect estimator, confirm the existence of a reduced-form relationship between votes for the central Government and regional economic growth. The electoral support provided by each province to the incumbent party is correlated to faster rates of regional economic growth, particularly in provinces where the electoral race is closer. The preferential allocation of developmental Government goods to provinces – namely public investment and public investment incentives to the private sector – partly explains such relationship. Yet, the overall effect of electoral politics on economic growth is very modest. Besides, once the potential endogeneity between the dependent variable and the regressors is accounted for with an Instrumental Variable strategy, regional economic performance appears as almost entirely explained by standard socio-economic factors, primarily human capital endowment. Results are robust to the inclusion of standard variables which may drive regional economic growth, as well as to the inclusion of factors specifically able to control for the structural change that Turkey's emerging economy is undergoing.

The remainder of the paper is organized as follows: section two provides a review of the literature on the link between political representation and regional economic growth, offers an overview of Turkey's political cleavages and regional economic performance, and sets the research hypotheses. Section three defines a political-economy model of regional growth, and discusses the empirical variables used to estimate the model, the data, as well as the identification strategy. Section four presents, and then discusses, the results. Section five eventually draws the discussion to a conclusion.

## **2. Exploring the link between votes and regional economic growth**

### **Votes and economic growth**

The impact of political parties, elections and national political institutions on macroeconomic performance has been increasingly explored by scholars in the last twenty years (Boix, 1998; Persson and Tabellini, 2003; Rajan and Zingales, 2006; Sen, 2013). In parallel to such political economy literature carried out at the national level, a considerable amount of research has been conducted at the sub-national level. This second corpus of work has frequently stressed the role of local political coalitions and local political entrepreneurialism in shaping governance structures conducive to economic growth (Apaydın, 2012; Bayırbağ, 2011; Wood and Valler, 2004; Wood, 2008). In spite of those two separate bodies of research, very little research has been carried out to cross cut them and specifically explore how votes and partisan articulations may influence local and regional economic development via their role in the construction of societal cleavages and the distribution of state goods.

The existence of such gap in the literature is particularly puzzling considering the vast amount of literature on distributive politics, i.e. on how self-interested politicians may lead to heterogeneously distribute public spending and other state goods to specific groups at the expenses of others to gain electoral advantage (Golden and Min, 2013). A growing body of research linking economics and political science has indeed explored how public resources are frequently distributed on the basis of ‘purely political’ considerations (Persson, 1998). Such literature has explored the distribution of goods as various as regional grants and federal spending (Case, 2001; Larcinese, Snyder, and Testa, 2012; Tekeli and Kaplan, 2008), trade and industrial policy (McGillivray, 2004), infrastructure investments (Cadot et al., 2006; Castells and Solé-Ollé, 2005; Golden and Picci, 2008; Kemmerling and Stephan, 2008), investment incentives schemes (Yavan, 2012), poverty reduction programmes (Diaz-Cayeros, Estévez, and Magaloni, 2012; Fried, 2012; Kroth, Larcinese, and Wehner, 2015), international aid (Briggs, 2014), and the EU cohesion policy (Bouvet and Dall’Erba,

2010; Kemmerling and Bodestein, 2006).<sup>13</sup> Yet, in spite of a literal ‘explosion’ of research on distributive politics, very little research has so far explored the final economic impacts which such preferential allocations may determine. Levitt and Poterba (1999) provide a seminal attempt to explore a research hypothesis similar to ours. They explore the link between congressional representation and state economic performance in the US. While they uncover a positive correlation between sub-national economic growth and the seniority of Democratic congressmen representing States at the federal level, they are unable to find any causal explanation for it. Given the sizeable effect that electoral politics may have on the design and implementation of developmental policies, there is yet reason to expect that votes and partisan articulations may influence not only the allocative policy outputs, but also their final outcomes, namely economic performance.

This may be particularly true in the emerging markets (Cadot et al., 2006), where public capital and state support to the business environment are likely to play a key role – bigger than in rich economies – in triggering the private capital accumulation process.<sup>14</sup> Besides, in such environments lower levels of bureaucratic capacity and stronger informal consensus building practices (Özcan, 2000, 2006) frequently reduce the incentives/capacity to prevent the political use of public monies (Evans, 1995). Recently exploring the political economy of state-business relations in the emerging world, Buğra and Savaşkan (2012) put exactly forward empirical evidence suggesting that tense partisan relations between the subnational and the central governments may influence local and regional economic performance via the Government’s preferential treatment of its partisan supporters. The evidence collected by the two authors suggests that the national Government may ‘punish’ political opponents via channels such as: (1) the provision of particular incentives to neighbouring aligned regions so as to stimulate private investments’ relocations; (2) the restraintment of public investments for the development of key, necessary infrastructures; (3) and, last but

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<sup>13</sup> In their extensive analysis of the literature Golden and Min (2013) have found more than 150 articles on the topic. Our review of the literature even increases such count.

<sup>14</sup> Scholars such as Evans (1995) and Kohli (2004) provided exhaustive theoretical frameworks and empirical evidence for understanding the salience of active developmental state intervention in emerging and late-industrialising economies.



not least, the mobilization of legislative and administrative mechanisms aimed at a favourable treatment of only aligned business groups.

A key assumption behind such hypotheses concerns the importance of political cleavages as catalyst for the formation of economic ones. Since the seminal work by Lipset and Rokkan (1967), social scientists have extensively studied the link between social cleavages and party systems. According to the two authors' theoretical framework, party systems reflect, to a greater or lesser degree, the social cleavage structure existing in a specific society. The number of cleavages is hence considered a key predictor of the number of parties. Furthermore, the intensity of such social cleavages is also assumed as a determinant of the intensity of partisan polarisation, an important dimension that distinguishes moderate and highly polarised party-systems.

### **Political cleavages, state support, and economic performance in Turkey**

Turkey is described in the literature as a polity where incumbents have frequently provided privileged treatment to people and constituencies with the right political affiliation and punished opponents (Acemoğlu and Robinson, 2013b; Heper and Keyman, 1998). Political polarisation has been one of the most serious and persistent maladies of Turkish political system, with pro- and anti-government groups frequently opposing each other (Özbudun, 2013).<sup>15</sup> In spite of periods such as the 1990s during which fragmentation and volatility weakened the role and coherence of the party system, throughout Turkey's republican history Turkish political parties have in general displayed a high degree of saliency in the political arena (De Leon, Desai, and Tuğal, 2009). Sharing similarities with other Southern European countries such as Italy and Greece (Lanza and Lavdas, 2000), interest politics and party politics have frequently showed strong links.

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<sup>15</sup> The start of armed clashes between the Turkish State and the outlawed PKK (*Partiya Karkeren Kurdistan*, Kurdistan Workers' Party) has produced another main transversal cleavage opposing Turkish nationalists to supporters of the Kurdish movement (Çarkoğlu and Hinich, 2006). The current article focuses exclusively on the first one.

Furthermore, in line with the experience of other late-industrialising countries around the world, the Turkish state has traditionally played a key role in fostering the process of private capital accumulation and economic development (Eraydın and Armatli-Köroğlu, 2005). The role of central government policies and state manufacturing firms behind the emergence of industrial districts in previously economically marginal areas is for example well documented (Eraydın, 2001). Bayırbağ (2010, 2011)'s research on the complex rescaling interlinks between Gaziantep's local economic coalitions and the central level indirectly provides evidence on the importance of the central state in shaping local and regional economic development trajectories. Qualitative evidence collected by Buğra and Savaşkan (2012) for recent years suggests that business groups with strong links to the government experienced better economic performance than ones opposed to it, thanks to preferential treatment in the allocation and management of public resources and other goods such as public tenders. Preliminary evidence collected by the two authors leads to suggest that such concerns may apply not only to individual business groups but also to entire constituencies. They in particular uncover the fear of local and regional actors about feeling penalized by the government for systematically voting for the main opposition party (*Cumhuriyet Halk Partisi*, Republican People's Party, CHP, as opposed to the *Adalet ve Kalkınma Partisi*, Justice and Development Party, AKP) in both local and national elections.<sup>16</sup>

Although the weight of the Turkish State's direct intervention in the economy has shrunk since the 1980s (Arıcanlı and Rodrik, 1990), an abundant amount of literature has provided theoretical and empirical evidence showing how the role of the state in influencing the economic and business environment has not diminished. The evidence include qualitative and case-study investigations on the State-business relations (Acemoğlu and Robinson, 2013b; Buğra and Savaşkan, 2014), as well as econometric analyses on the impact of public capital on regional productivity (Deliktaş, Önder, and Karadağ, 2008; Karadağ, Deliktaş, and Önder, 2004). Furthermore, the country still remains one of the most centralised public finance systems among OECD

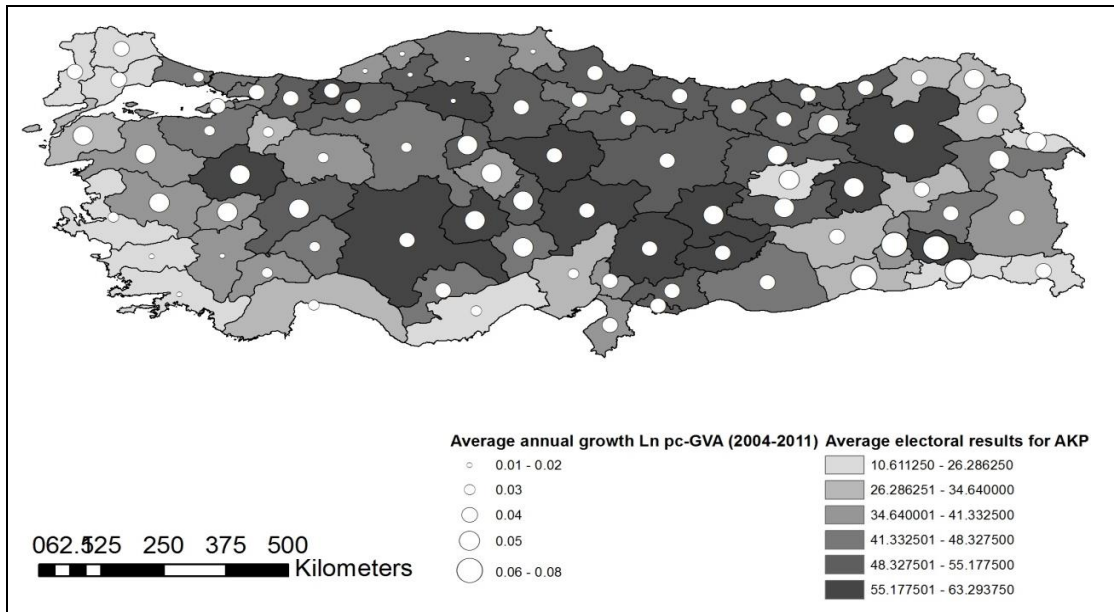
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<sup>16</sup> The other main parties since the early 2000s have been the nationalistic National Action Party (*Milli Hareket Partisi*, MHP), and the pro-Kurdish Peace and Democracy Party (*Barış ve Demokrasi Partisi*, BDP), which succeeded to the Democratic Society Party (*Demokrat Toplum Partisi*, DTP) outlawed in 2008.

countries (Blöchliger and Rabesona, 2009). Many of the final decisions affecting regional development are still largely in the hands of Turkey's central Government, which may hence use such power to implement vote buying strategies.

The map presented in Figure 1 shows how the patterns of regional economic growth during the last decade have been consistently heterogeneous. The group of regions which experienced the highest average annual growth rates of per capita GVA during 2004-2012 include both some of the poorest NUTS2 regions such as Mardin (8 percent per annum), Erzurum (4.5 percent per year) and Ağrı (4.3 percent per year), as well as middle income regions such as Manisa (4.9 percent per year), Balıkesir (4.5 percent per year), Malatya (4.1 percent), and Kırıkkale (4.1 percent).

**Figure 1.** Average AKP votes and annual growth rates of regional per-capita Gross Value Added (GVA) (2004-2012).



Source: own elaboration

Figure 1 also shows the average percentage of votes cast for the AKP in national elections between 2002, 2007 and 2011. 2002 elections are interpreted as a turning point in Turkish politics as they witnessed a dramatic turnover among the political class and the substantial rise of the newly formed AK Party, which has kept increasing its power thereafter. Since then, the political scene has been mostly dominated by such party. The distribution in Figure 1 shows the marked spatial

heterogeneity of the electoral support to the AKP, with average results across the three electoral tournaments ranging from 10 percent to more than 63 percent.

The consolidation of Turkey's political spectrum following 2002 has in particular marked the crystallisation of a pre-existing fault line, running in parallel to the contraposition between the pro-Islamic constituencies and the secular, Kemalist supporters. Compared to the European countries studied by Lipset and Rokkan (1967) Turkey's social system has maintained its relatively lower number of cleavages (Özbudun, 2013). Such division of Turkey's society dates back to the late Ottoman period and the early republican years, and is at the core of the 'preferential treatment' hypothesis being tested in the analysis. One of the most established metaphors used to depict such cleavage describes Turkey as a country divided between a political centre – constituted by the State bureaucracy, the military, and the historical urban elites – and a large periphery – including the lower classes and rural environments, frequently with more conservative and Islamic traditions (Mardin, 1973). The strongly non-confessional State building project started by the founder of the Republic M.K. Atatürk, and subsequently advocated by the CHP had traditionally been one carried out by the centre. Since the 1980s, two socio-economic changes started rearranging the power balance and composition of such cleavage. First, a massive wave of internal migration towards the main urban areas transformed the spatial equilibrium between the centre and the periphery. Since centre and periphery are not spatially differentiated any more, authors have recently renamed the societal cleavage as one between "White Turks", representing the former group, and "Black Turks", representing the less-educated, lower-class with frequently peasant roots and stronger links to religion (Acemoğlu and Robinson, 2013a). Second, and most important, the economic rise of provincial Anatolian towns – the so-called Anatolian Tigers – led by a new capitalist class with rural origins and which identify themselves as pious capitalists – or "Islamic Calvinists" (ESI, 2005) – started altering the distribution of economic power between the two groups. Importantly for our analysis, the AK Party's political success eventually marked the electoral victory of the latter over the former.

## **Research hypotheses**

Following the literature discussed in the previous sections, the main hypothesis tested by this article states

*Main hypothesis:* Constituencies voting for the incumbent party grow faster than others, thanks to a preferential treatment received in the management of governmental public and private goods.

In spite of hypothesis H.1, other research conducted on the impact of political and social factors in influencing local economic performance may suggest that partisan politics *in general* is not relevant to explain regional economic growth. According to Rodríguez-pose (1998)'s results, regional growth in Western Europe is largely accounted for by "standard" factors such as physical and human capital, innovative capacities, and socio-demographic regional characteristics, rather than by electoral politics. The alternative hypothesis thus puts socio-economic factors at the heart of regional economic performance. It states

*Alternative hypothesis:* Electoral politics does not drive regional economic performance, which is instead explained by standard socio-economic factors of growth.

### 3. Empirical analysis

#### A political-economy model of regional economic performance

The aim of this section is to briefly describe a theoretically-driven, political-economy model of regional economic growth. Drawing from earlier political economy research (Besley et al., 2010), follows this growth model:

$$\Delta Y_{i,t} = \beta_0 Y_{i,t-1} + \beta_1 P_{i,t-1} + \beta_2 P_{i,t-1}^2 + \beta_3 G_{i,t-1} + \beta_4 X_{i,t-1} + \alpha_i + n_t + \varepsilon_{i,t} \quad (1)$$

Where:

$\Delta Y_{i,t}$  is the rate of per-capita economic growth, expressed in logarithmic terms, of province  $i$  at time  $t$  and  $Y_{i,t-1}$  is the yearly lagged provincial per-capita GVA (gross value added),<sup>17</sup> included to test for Solow-style convergence of per-capita income, with  $\beta < 0$  indicating convergence.

$P_{i,t-1}$  is the key variables of the model and is aimed at measuring the votes casted in each province for the incumbent governing party. In particular, we want to test whether  $\beta_1 > 0$ , i.e. whether higher votes for the central government drives higher growth rate of provincial personal income.

Within the literature on the link between partisan votes and distributive politics literature a classic debate has flourished on whether Governments target goods to partisan strongholds (Cox and McCubbins, 1986) or, by contrast, to swing constituencies (Dixit and Londregan, 1996). Recent research on Turkey's public investment provides evidence in favour of the first hypothesis (Luca and Rodríguez-Pose, 2014). The inclusion of  $P_{i,t-1}$  exactly captures such relationship. Yet, even within core-supporters models, utility-maximising politicians may decide to reduce their support to core constituencies above and below a certain votes' threshold. In other words, combining Cox and McCubbins (1986) Dixit and Londregan (1996)'s

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<sup>17</sup> GVA may not be the best variable to measure regional economic growth, in that it does not capture the effect of state taxes and transfers on final income. Aware of such shortcoming, we are left with no other option due to data availability. Data limitation is – alas – one of the biggest problems in empirical research, particularly in emerging countries. Section 3.3 provides specific details on why GDP data at sub-national level is not available in Turkey for the last 15 years' period.

models, the relationship between the amount of goods distributed and partisan support may be non-linear and inverse-U shaped, as found in the case of the European regional structural funds allocations (Bouvet and Dall’Erba, 2010). Such non-linearity implies that the preferential treatment tends to increase where political competition is higher. Anecdotal evidence supporting such argument in the Turkish context is offered, for example, by a Parliamentary speech delivered in 2012 by a legislator from the province of Kütahya. In such occasion, the Member of Parliament complained how the province had been “forgotten” in the distribution of State resources and had been left behind in terms of development (Işık, 2012), in spite of its exceptionally strong electoral support given to the governing party – which exceeded 60 percent in both 2007 and 2011 elections. Hence,  $P^2_{i,t-1}$  is included to control for possible non-linearity in the relationship between  $P$  and  $\Delta Y$ . The literature also argues in favour of a positive link between greater local political competition and higher growth rates (Besley et al., 2010), driven by the positive effects of competition on the quality of policies implemented. In the final part of the paper we will hence test the robustness of our results to the replacement of  $P^2$  with a more traditional measure of provincial electoral competition, namely how close the electoral race is.

$G_{i,t-1}$  is included to control for the heterogeneous allocation of governmental goods across provinces. Concretely,  $G$  accounts for total public investment and investment incentives to the private sector, two key policy tools adopted by the Turkish Government to foster regional economies. The first part of section 4 will provide empirical evidence to show that Government supporters receive a preferential treatment in the allocation of key public resources necessary for development. The inclusion of  $G$  in the model will then help testing whether any links between electoral results and economic growth is indeed driven by distributive politics. If this was true, adding  $G$  into the equation should lead to a decrease in the magnitude of the electoral variable’s coefficients, since their effect would now be picked up by the former.

$X_{i,t-1}$ , consists in a vector of socioeconomic controls which, according to the literature, may also play a role in influencing the dynamics of economic growth, such as private, public and human capital investments. While much of growth theory ignores the existence of productivity gaps between existing activities in the economy, in developing countries growth traditionally takes place through the movement of labour

from low-productivity to high-productivity sectors. In the last decades, Turkey has indeed experienced significant trends of structural economic transformation (Altuğ et al., 2007), with a significant shift of work-force from traditional sectors such as agriculture to manufacturing and, more recently, services. Such process has played a consistent role in the increase of total productivity. Turkey's average productivity in manufacturing, for example, currently exceeds the one in agriculture almost by a factor of three (Rodrik, 2010). Structural change, in particular, has been responsible for 45percent of the labour productivity growth in Turkey between 1990 and 2005 (Rodrik, 2010). To control for such trends, the vector  $X_{i,t-1}$  will also include four key variables able to account for such structural socio-economic change, namely the share of manufacturing in the regional economy, the level of regional entrepreneurship, the level of rural population and the total provincial population.

$\alpha_i$  and  $n_t$  respectively consist in province fixed- and time-effects, and  $\varepsilon_{i,t}$  is the error term.

### **Empirical variables**

The variables selected for the empirical estimation of equation (1) are described in the following paragraphs. The dependent variable is the annual growth rate of provincial per-capita GVA, expressed in per capita Turkish Lira at 2012 prices and in logarithmic terms. The selection of absolute growth rates provides a methodology which allows an easy and straightforward interpretation of results. Robustness tests will further explore whether results hold when regional growth is measured in relative terms to the country mean.

A one-year lag between left- and right-hand side variables is included to account for the time necessary for political variables to potentially influence economic outcomes. This means that the length of the panel decreases from 9 to 8 years. Among the regressors, lagged output  $Y_{i,t-1}$  is followed by the model's political variable

*Votes*: the variable measures the share of votes casted for the governing AK Party in national elections. The decision not to focus on results from local elections is motivated by the fact that administrative elections are frequently based on local



political issues, while national elections provide a better picture of the overall partisan closeness of a province to the central Government. Following the conceptual discussion in section 2.2, the squared variable is also included to account for the non-linear relationship we expect to find between votes and regional economic growth.

The third group of variables is included to control for the hypothesised preferential allocation of governmental goods to aligned constituencies. It includes

*Public capital investment*: total amount of public fixed-capital investment to each province.<sup>18</sup> Values are expressed in per capita Turkish Lira (TL) at 2012 prices and in logarithmic terms.

*Investment incentives to the private sector*: total number of investment incentive certificates annually distributed by the State to private businesses, per 1000 inhabitants. Values are expressed in logarithmic terms.

Finally, the socio-economic control variables accounted for in the analysis are

*Entrepreneurship*: Acemoğlu and Robinson (2013b) suggest that the beginning of the AKP government in 2002 may have witnessed an opening of economic opportunities to Anatolian entrepreneurs and would-be entrepreneurs, often with conservative and religious backgrounds, previously disfavoured by the strongly non-confessional bureaucracy. According to such hypothesis, the beginning of the AKP government may thus have ‘levelled the economic playing field’ by broadening the geographical and social basis of entrepreneurship (Acemoğlu and Robinson, 2013b). The inclusion of entrepreneurship into the equation should help controlling for such trends and for any spurious correlation between political variables and economic performance not related to the partisan preferential treatment hypothesis. In the absence of any other viable indicators, the variable is proxied by the annual variation in the total number of economic units per 1000 inhabitants.

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<sup>18</sup> A large proportion of investments is registered as multi-provincial, so it is not possible to match it with any specific province. Over 2004-2012, multi-provincial projects accounted on average for 45.67percent of the total public investment portfolio, with an annual standard deviation from the period’s overall mean of 5.10. In absence of any viable solution to mitigate such data flaw, we follow earlier pieces of literature (Celebioglu and Dall’erba, 2010; Deliktas et al., 2008; Karadag et al., 2004) and only concentrate on the investments which can be matched with single provinces.

*Human capital stock:* this variable is proxied by the percentage level of education in the labour force. While analyses conducted in more technologically-advanced countries customarily account for ISCED 5-6 levels, our analysis focuses on ISCED 3-4 levels. First, the overall levels of education attainment in Turkey are still comparatively low. The average level of schooling for the workforce, for example, was in 2005 at 5.3 years, i.e. 2/3 years less than many other countries at a similar level of economic development (Altuğ et al., 2007). Furthermore, considering that a key driver of economic growth has been manufacturing in industries characterised by low/medium technological skills, ISCED 5-6 levels are not likely to capture the potential impact that human capital may play in economic development.

*Manufacturing employment share:* manufacturing employment shares will capture one of the core sectors contributing to the transformation of Turkey's economy. The importance of manufacturing in the economic development of Turkey's regions has particularly increased since the 1980s, as many new industrial centres emerged in Anatolia.

*Rural population:* this indicator is aimed at capturing the structural transformation of the Turkish socio-economic system is the percent of provincial population living in rural districts. In a country such as Turkey characterised by late development and a rapid, recent urbanisation, the regional developmental inequalities are likely to be correlated with the urban/rural divide.

*Private capital investment:* gross regional investment in tangible goods is aimed at controlling for the role private capital accumulation may play in economic growth. Values are expressed in per capita Turkish Lira (TL) at 2012 prices.

*Total provincial population:* last but not least, provincial population is aimed at controlling for potential indirect effects on economic performance.

A final note should be devoted to social capital. A large body of regional growth literature has shown the role played by social capital and associability in economic development (cf. Iyer, Kitson, and Toh, 2005; Putnam, 1993; Woolcock, 1998). Unfortunately, regionalised data on measures of social capital is not available for the period of study. Somehow reassuringly for the research, commenters have argued that

the role of civil society organisations in Turkey has been traditionally modest. Kalaycioğlu for example suggests: “A tolerant, trusting, active public, vigorously seeking greater influence over political authorities through conventional political participation, still seems a long-term goal in Turkish politics. [...] In short, the overall record indicates that associability is still a relatively scarce commodity in the Turkish culture” (Kalaycioğlu, 2001, pp. 60, 62). While we have reasons to believe that, particularly in the last two decades, civic activism may have increased, we unfortunately have no data to control for. Interestingly, data on the total number of civil society organisations recorded by the Civil Society Development Centre’s database ([www.stgm.org.tr](http://www.stgm.org.tr), accessed on April, 15, 2015) as of 2015, the only available year, shows a significantly high correlation to provincial population: the pairwise correlation coefficient between number of civil society organisations and provincial population is above 91 percent (significant at the 0.01 confidence level).

## **Data**

The analysis employs a panel data set covering 81 Turkish provinces over the period 2004-2012. We will focus on changes in NUTS2 regions income, rather than provinces (NUTS3 level) income, thus assigning to each province the value of its corresponding NUTS2 region. Alas, even if NUTS2 regions do not correspond to any administrative tier, in 2001 the Turkish Statistical Institute ceased reporting economic data for provinces and started instead reporting values at NUTS2 level. In absence of any other viable solution, such strategy follows earlier literature. Levitt and Poterba (1999) points to the fact that the use of economic outcome data at an administrative layer higher than the political variables’ one may be good for capturing economic spill-overs from potentially powerful legislators that accrue to residents outside their strict electoral constituencies.

Political variables are collected at the provincial level. We focus on provinces because they constitute the power bases of political parties, one of the most important tiers of political representation in Turkey (Güvenç and Kırmanoğlu, 2009), and the only administrative tier between municipalities (and metropolitan municipalities) and the central State. Electoral data for 2002, 2007 and 2011 elections was gathered from

the European Election Database. We annualise political variables by extending electoral results over each legislature's single year. Electoral wards within metropolitan provinces are not taken into account and therefore national elections' data is only collected for provinces.

All the other socio-economic controls are collected at provincial level when available or at NUTS2 level otherwise. A detailed description of variables, their key summary statistics, and pairwise correlation coefficients are respectively provided in Appendixes 1, 2 and 3.

### **Identification strategy**

Our baseline empirical strategy to explore the link between votes and regional development is to estimate equation (1) adopting a heteroscedasticity and autocorrelation robust estimator with province and annual fixed effects. Such strategy should attenuate the risk of spurious correlations between left- and right-hand side variables caused by unobserved characteristics – such as the local economic structure or the level of cohesiveness/conflicts among the local business community, as well as any other shocks that may affect both the electoral results and the economic performance.<sup>19</sup>

To control for potential serial and spatial correlation, estimations adopt robust standard errors adjusted for clustering at the provincial level (NUTS3 level, 81 clusters). Errors are clustered at NUTS3, rather than NUTS2 level, not only because we believe the former is a more important tier, but also because the latter only includes 26 units and such low number may not guarantee consistent results.

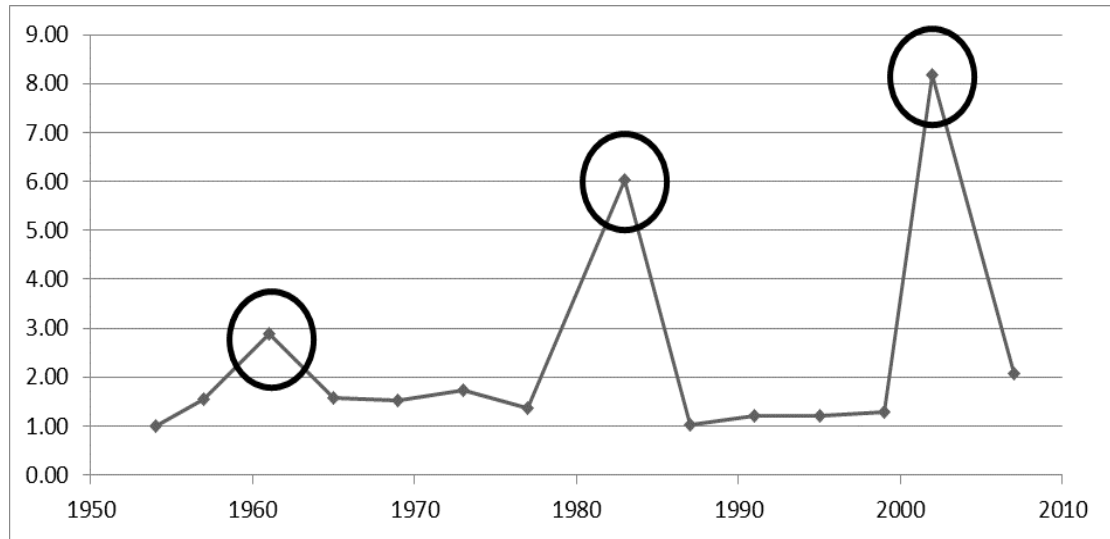
While the within-estimator should help controlling for potential omitted factors, a second and more important cause of concern in the estimation of equation (1) is the endogeneity of the political variables. We consider 2002 electoral results as

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<sup>19</sup> To further control against omitted variable biases we have also tried including the interaction between time and fixed effects. Estimates not presented in the paper but available on request show that results do not change.

exogenous. After almost a decade of rampant corruption, poor economic performance and infighting under coalition governments, 2002 elections are considered as a real turning point in Turkish politics (Işık and Pınarcıoğlu, 2010; Zeyneloğlu, 2006) . The combined share of votes for the five main parties in 1999 elections was 81 percent, while it dropped to a mere 24 percent in 2002 (Akarca and Başlevent, 2011). Figure 2 shows the turnover rate of MPs after each election. The rate, which is constructed dividing the number of newly elected MPs by reconfirmed ones, shows how 2002 rate has been the highest in Turkey’s democratic history.<sup>20</sup>

**Figure 2.** Parliamentarians’ turnover rate (newly elected/reconfirmed MPs) at each election. Circled are post-1960 and post-1980 military coups, 2002 elections.



Source: own elaboration.

The literature on distributive politics underline that voters may reward or punish politicians on the basis of their past allocations of the budget – retrospective voting models – or on the basis of their promises about the future – prospective voting models (Larcinese et al., 2012). If the latter were true for Turkey, then also 2002 results would suffer from endogeneity since voters’ *expectations* in 2002 would be correlated to the future preferential treatment by the central Government. In a politically very unstable environment where politicians frequently did not keep their

<sup>20</sup> 2002 AKP electoral results may nonetheless be correlated to electoral results in the mid-1990s. We thank one anonymous referee for raising such important point. Robustness checks will hence test whether the exclusion of 2002 elections from our panel influences the empirical results.

pledges (as it was likely after the 1990s), we argue that the risk of endogeneity due to prospective voting is low.

Yet, in the case of subsequent results endogeneity is a serious issue, since electoral outcomes at time  $t$  are likely to be influenced by economic performance at time  $t$  and time  $t-1$ . Our solution to identify the genuine causality between votes and economic performance is to adopt an instrumental variable approach. To this aim we design a shift-share instrument drawing from the seminal strategy proposed by Bartik (1991) and since then increasingly used to identify sources of exogenous shocks in spatial economics literature (e.g.: Moretti, 2010). The theory behind the instrument is that national vote pattern changes that are party-specific but external to an individual province reflect exogenous political shocks for that province. Concretely we construct the instrument by weighting  $n_{ib}$ , which represents the initial electoral result for each province  $i$  in the base year  $b$  (2002), for the national variation between time  $t$  and the base year  $b$ :

$$POL_{IVit} = n_{ib} * \left(1 + \frac{N_t - N_b}{N_b}\right)$$

The inclusion of the endogenous political term in quadratic form in equation (1) poses a further challenge. Since adding any linear variable as second instrument would lead to a poorly identified model, our solution is to instrument the quadratic term of the endogenous variable with the quadratic term of the main instrument, as suggested by Woodridge (2010).

## 4. Results

The results are presented in two main steps. First, the analysis briefly provides evidence on the link between votes for the incumbent party and the heterogeneous allocation of governmental goods. Second, the investigation is extended from policy outputs to outcomes, to investigate whether the preferential treatment of the Government's supporters influence regional economic performance. The second sub-section presents the baseline FE results, while the third one shows the outputs obtained with the IV specification. The fourth sub-section provides further robustness tests, while the final one discusses the overall results.

### Votes and development policy

Extensive evidence on the distributive politics of Turkey has already been provided by earlier pieces of literature. Luca and Rodríguez-Pose (2015) in particular explore the drivers of public investment across Turkey's provinces for the same period considered in this article. While they stress how politics does not topple socioeconomic factors in the allocation of public investment, they show how political criteria have nonetheless played an important role in influencing investment allocations at the advantage of the government's supporters, and at the expenses of opponents. Following their methodology, we estimate the link between partisan articulations – proxied by votes in national elections – and the geographical distribution of public investment and investment incentives to the private sector. The equation we estimate takes the following form

$$G_{i,t} = \beta_1 P_{i,t-1} + \beta_2 X_{i,t-1} + \alpha_i + n_t + \varepsilon_{i,t} \quad (2)$$

Where  $G$  is the amount of goods distributed by the central Government;  $P$  is the electoral support given to the main parties, as well as a measure of electoral competitiveness;  $X$  is the vector of socio-economic controls discussed in Section 2;  $\alpha$  and  $n$  respectively consist in province fixed- and time-effects, and  $\varepsilon$  is the error term. Again, we include a one-year lag between left- and right-hand side variables. Our aim is to provide exploratory evidence. Table 1 shows the empirical results. Columns one

and two refer to public investment, while columns three and four refer to investment incentives to the private sector. As already stressed earlier, these are two of the key components behind Turkey's regional development policy, as well as the preferential treatment hypothesis.

**Table 1.** The link between central public infrastructure investment/investment incentives to the private sector and votes for the national incumbent party: robust Fixed Effects (FE) estimates (2004-2012). All explanatory variables are lagged by one year.

	(1) Public investment	(2)	(3) Investment incentives	(4)
AKP votes	0.0207** (0.00846)	0.0123* (0.00721)	0.0220*** (0.00733)	0.0159** (0.00670)
CHP votes	-0.0176** (0.00745)	-0.0160** (0.00725)	0.00382 (0.00650)	0.00439 (0.00658)
MHP votes	0.0126 (0.0138)	0.0172 (0.0137)	-0.0327*** (0.0109)	-0.0314*** (0.0104)
Kurdish party votes	0.0150 (0.00930)	0.0112 (0.00823)	0.00739 (0.00643)	0.00467 (0.00608)
Close race	0.000209 (0.00326)	-0.00262 (0.00320)	0.00275 (0.00293)	0.000854 (0.00252)
Constant	4.314*** (0.397)	-5.631 (5.233)	-3.667*** (0.377)	-1.522 (5.222)
Observations	648	648	648	648
R-squared	0.159	0.191	0.409	0.436
Number of id	81	81	81	81
Prov FE	yes	yes	yes	yes
Year FE	yes	yes	yes	yes
Controls	no	yes	no	yes

Robust, clustered standard errors in parentheses \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. Controls include: Regional per-capita GVA, entrepreneurship, human capital, manufacturing employment, rurality, private investment and population.

As expected, the amount of public investment and investment incentives to the private sector allocated to each province is positively and statistically significantly correlated to the electoral support for the national incumbent Government. Such evidence is robust against the inclusion of the socio-economic controls.



## Robust Fixed Effects estimates

The aim of this section is to answer the core question of the analysis and explore whether the effect of partisan articulations on policy choices extends to regional economic performance.

**Table 2.** Multivariate regressions of the regional per-capita Gross Value Added (GVA) growth rate: robust Fixed Effects (FE) estimates (2004-2012). All explanatory variables are lagged by one year. (2004-2012). All explanatory variables are lagged by one year.

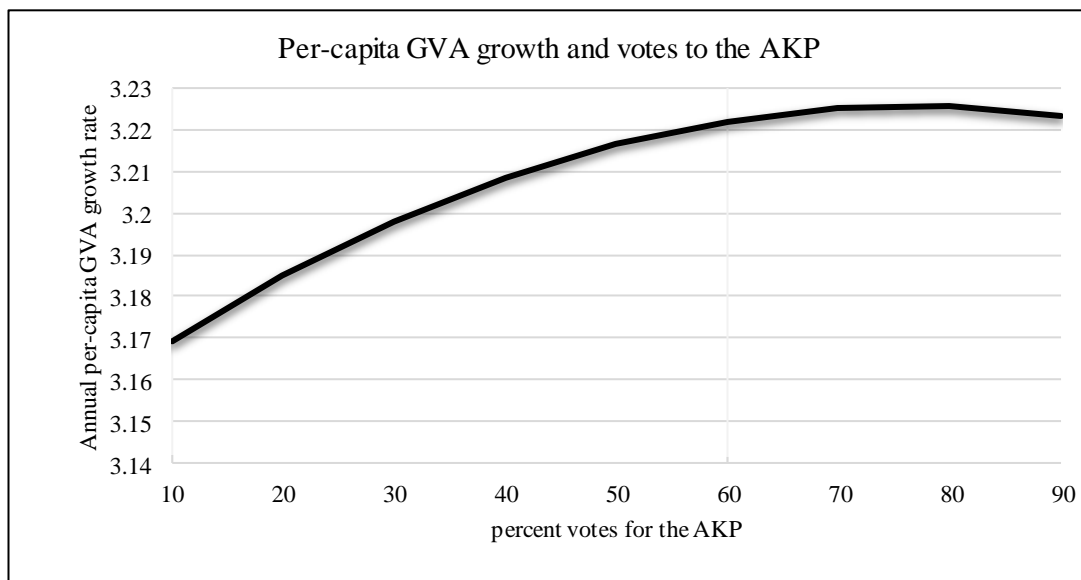
	(1)	(2)	(3)	(4)
Lagged GVA	-0.336*** (0.0256)	-0.340*** (0.0248)	-0.365*** (0.0271)	-0.467*** (0.0246)
AKP	0.000810* (0.000465)	0.00194*** (0.000494)	0.00184*** (0.000489)	0.00107* (0.000563)
AKP^2		-1.26e-05* (7.08e-06)	-1.30e-05* (6.75e-06)	-8.22e-06 (6.56e-06)
Public inv.			0.00309 (0.00230)	0.00243 (0.00228)
Inv. incentives			0.00753*** (0.00284)	0.00641** (0.00278)
Entrepreneurship				0.00260*** (0.000677)
Human capital				0.266*** (0.0881)
Manufacturing				0.00227*** (0.000804)
Rurality				0.00219* (0.00111)
Private inv.				0.00148*** (0.000293)
Population				3.28e-06 (5.67e-06)
Constant	3.130*** (0.229)	3.151*** (0.225)	3.390*** (0.248)	4.160*** (0.227)
Observations	648	648	648	648
Adjusted R <sup>2</sup>	0.629	0.632	0.637	0.675
Number of id	81	81	81	81
Province FE	yes	yes	yes	yes
Year FE	yes	yes	yes	yes

Robust, clustered standard errors in parentheses, \*\*\* p<0.01, \*\* p<0.05, \* p<0.

Table 2 presents the results. Province and year effects, as well as the lagged dependent variable, are included across all models. The overall fit of the models is good, with a ‘within’ adjusted R<sup>2</sup> reaching 68.4 percent in the full specification.

In line with the main hypothesis, column one shows a positive and significant correlation between the percentage of support given to the governing party, the AKP, and the rate of per capita regional economic growth. As expected, the inclusion of the quadratic electoral term in column two determines a neat increase in the statistical significance of the correlation between the percentage of votes casted for the AKP and the rate of per-capita GVA annual growth rate. This finding confirms that such correlation is significantly bell-shaped rather than linear.

**Figure 3.** Fitted line of the relationship between percent of votes for the AKP and the annual regional per-capita GVA growth rate (2004-2012): robust fixed effects (FE) estimates from column two of Table 2.



Source: own elaboration.

The fitted line shown in Figure 3 is based on the estimates from column two and the observed range of AKP values. It clearly shows how the marginal increase in GVA growth tend to reduce with the increase in the level of support to the central Government, turning negative for values above around 70 percent of votes.

The main research hypothesis argues that the correlation between the electoral variables and the regional growth rate is driven by distributive politics, i.e. the Government's preferential treatment of politically aligned provinces in the allocation of key developmental resources. If that was true, adding public infrastructural investment and the amount of public investment incentives provided to the private

sector – two key state goods behind the preferential treatment hypothesis – into the equation should lead to a decrease in the magnitude of the electoral variable's coefficients, since their effect would now be picked up by the newly added variables. Column three of Table 2 shows that this is partly the case. Among public investment and investment incentives to the private sector only the latter is significant. Their inclusion determines a reduction in the magnitude of the AKP coefficient. At the same time, it is necessary to acknowledge that in absolute terms such reduction is low. Interestingly, a bigger reduction in the AKP coefficient occurs when the control variables are included in column 4.<sup>21</sup>

The socio-economic control variables show the expected sign, as well as a high level of statistical significance: entrepreneurship, human capital, the share of manufacturing employment, the rate of rural population, private investment and total population appear all positively correlated to regional economic growth (although the latter is insignificant). Unexpectedly, the most relevant coefficient across the models is by far human capital, whose magnitude is significantly higher than all the others – even after taking into account differences in the variables' units of measurement.<sup>22</sup>

### **Instrumental Variable estimates**

The following paragraphs discuss the results obtained with the Instrumental Variable strategy. Table 4 shows the models' estimates following the same order as Table 2, while Table 3 shows the first stage regression coefficients for the full model of column four.

The relevance condition for the instruments is met: the first stage F-test of excluded instruments is above 10 (i.e. the customary rule-of-thumb value), while the instruments are strong and statistically significant predictors of the main endogenous

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<sup>21</sup> Results not presented here but available on request show that the reduction in the AKP coefficient is in particular driven by the inclusion, among the controls, of rural population.

<sup>22</sup> Further results not presented here but available on request show that the inclusion of human capital's quadratic term further strengthen its link with regional economic growth: the relation between the two variables is hence significantly inverse-U shaped.

variable to be instrumented. Furthermore, all the F-tests of excluded instruments for each of the models shown in Table 4 are satisfactorily close to 10.<sup>23</sup>

**Table 3.** First-stage regression of the endogenous political variable: AKP votes (2004-2012). Estimates are presented for both the linear (column one) and quadratic term (column two).

	(1) AKP	(2) AKP^2
GVA	-2.619 (6.770)	-235.2 (625.3)
Public investment	-0.0176 (0.355)	12.70 (33.51)
Investment incentives	1.240** (0.577)	109.4** (44.82)
Private investment	-0.0161 (0.0661)	-4.938 (6.612)
Human capital	-0.623 (16.17)	-463.7 (1,537)
Entrepreneurship	0.272** (0.106)	23.90** (9.459)
Manufacturing	0.00569 (0.110)	6.367 (9.992)
Rurality	0.771*** (0.274)	65.81** (26.25)
Population	-0.00454*** (0.00172)	-0.535** (0.204)
AKP_IV	1.547*** (0.485)	347.4*** (56.25)
AKP_IV^2	-0.0138*** (0.00288)	-2.180*** (0.378)
Constant	0.152 (62.55)	-7,243 (5,859)
Observations	648	648
Number of id	81	81
Adjusted R <sup>2</sup>	0.808	0.750
F-test	51.57	32.58
Province FE	yes	yes
Year FE	yes	yes

Robust, clustered standard errors in parentheses, \*\*\* p<0.01, \*\* p<0.05, \* p<0.

<sup>23</sup> The F-tests here reported refer to the endogenous variable's quadratic term.

**Table 4.** Multivariate regressions of the regional per-capita Gross Value Added growth rate: Instrumental Variable (IV) estimates (2004-2012). All explanatory variables are lagged by one year.

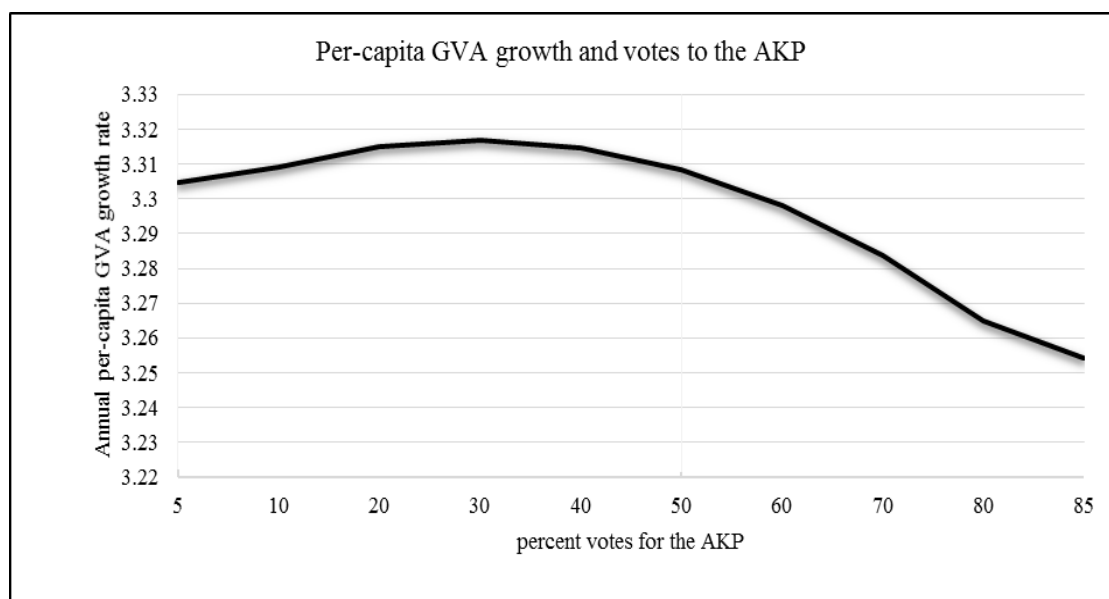
	(1)	(2)	(3)	(4)
Lagged GVA	-0.337*** (0.0278)	-0.353*** (0.0287)	-0.384*** (0.0297)	-0.491*** (0.0337)
AKP	0.000541 (0.000485)	0.00120* (0.000647)	0.00113* (0.000641)	0.000225 (0.000673)
AKP^2		-2.03e-05*** (6.41e-06)	-2.06e-05*** (6.36e-06)	-1.28e-05** (6.34e-06)
Public inv.			0.00329 (0.00205)	0.00241 (0.00197)
Inv. incentives			0.0109*** (0.00292)	0.00880*** (0.00279)
Entrepreneurship				0.00281*** (0.000709)
Human capital				0.297*** (0.0684)
Manufacturing				0.00217*** (0.000668)
Rurality				0.00320*** (0.00112)
Private inv.				0.00170*** (0.000445)
Population				-1.69e-07 (1.07e-05)
Constant	3.155*** (0.257)	3.299*** (0.265)	3.615*** (0.276)	4.374*** (0.301)
Observations	648	648	648	648
Number of id	81	81	81	81
First stage F	13.81	9.38	9.82	10.28
Province FE	yes	yes	yes	yes
Year FE	yes	yes	yes	yes

Robust, clustered standard errors in parentheses, \*\*\* p<0.01, \*\* p<0.05, \* p<0.1

The estimates presented in Table 4 reflect relatively closely the ones shown in Table 2. At the same time, the political variables' magnitude and level of statistical significance are now both reduced. This suggests that the Fixed Effects estimates for the political variables are partly influenced by endogeneity. The causal effect of partisan closeness to the central Government in driving faster regional economic performance appears with the expected sign, yet it turns significant only after the non-linearity is accounted for, i.e. when its quadratic term is included in the regression (column two of Table 4). Furthermore, the comparison between Figures 3 and 4 clearly shows that after controlling for endogeneity, the causal effect's magnitude appear even smaller, reaching its inverse-U shape's peak at an earlier level of the AKP values' distribution. For electoral result values higher more or less than

55 percent (i.e. less than one standard deviation from the mean), the overall net effect between the linear and quadratic political terms now turns even negative. Such finding is in line with the theoretical predictions discussed in Section 3, since the Government is more likely to provide stronger favouritism to constituencies where the electoral races are tight compared to provinces either completely lost or secured.

**Figure 4.** Fitted line of the relationship between percent of votes for the AKP and the annual regional per-capita GVA growth rate (2004-2012): IV estimates from column two of Table 4.



Source: own elaboration.

Similarly to what observed with the FE estimates public investment is positively associated to regional economic growth but is insignificant. By contrast, the level of investment incentives offered by the State to the private sector is both positive and significant as in the FE estimates. Including public infrastructure investment and investment incentives to private firms – two of the channels through which the impact of electoral variables should influence economic performance – in model three of Table 4 determines a reduction in the coefficient and significance of AKP. As before, it is also worth noting that a similar reduction in the AKP coefficients also occurs when the controls are included in the full model (column four). In other terms, the correlation between partisan closeness to the central government and regional economic growth indeed seems explained, to a very small extent, by the preferential

allocation of public investment and incentives. Yet, another significant portion of it is explained by spurious factors.

Most of the other coefficients included in models four appear with the same sign and statistical significance as in Table 2. Entrepreneurship, human capital, manufacturing employment share and private capital investment are significant drivers of economic growth. The only exception is provincial population, which now turns negative yet retains its insignificance.

### **Robustness checks**

This last empirical section is aimed at providing some robustness checks on the results discussed above.

As discussed in Section 3, our main analysis included the square of votes for the incumbent party to test for the effects of higher/lower political competition. A first test checks whether results are robust against the replacement of  $P^2$  with a more traditional measure of provincial electoral competition (Besley et al., 2010). The variable, named *Close race*, is constructed as the negative of the absolute value of the vote difference between the incumbent party and its main challenger in each province. The challenger is the second party where the AKP is the leading one or the first party when the AKP is not the first one. As we take the negative of the absolute value, we will expect the variable to show a positive value, meaning that regional growth is higher in provinces where the vote difference is lower. The new results, presented in Appendix 4, confirm the prediction and are very similar to our original ones. Tests not included but available on request indeed show that if *Close race* is included along with our original  $P^2$  variable, the latter turns highly insignificant. As a matter of fact, the pairwise correlation between the two variables is close to 74 percent (significant at the 0.01 confidence level).

Second, it is well known that in dynamic models – i.e. equations characterised by the inclusion of the lagged dependent variable among the regressors – FE estimates are potentially biased in the order of  $1/T$  (Nickell, 1981). To rule out any potential concerns, this final section estimates a regression similar to Models 1 and 2 but

excluding their dynamic components, i.e. including the dependent variable in levels instead of first difference while excluding the lagged convergence term from the regressors. The new equation takes the following form:

$$Y_{i,t} = \beta_1 P_{i,t-1} + \beta_2 P_{i,t-1}^2 + \beta_3 G_{i,t-1} + \beta_4 X_{i,t-1} + \alpha_i + n_t + \varepsilon_{i,t} \quad (3)$$

Appendix 5 shows the results obtained estimating equation (3). The results are overall consistent to the ones from the dynamic model specifications. The socioeconomic controls are mostly uninfluenced from the different specification. Across the FE estimates, the key electoral variables of the model behave similarly as before. Their statistical significance is nonetheless further reduced: after the inclusion of the full list of controls, neither AKP, nor its squared term, are significant at a standard confidence level. The political variable and its square term show the expected sign across the IV estimates, yet they are insignificant. Interestingly the square term turns significant after the inclusion of the controls, but only at the 10 percent level. Considering the dramatic dynamism of Turkey's regional economies during the period of study we believe that the estimates obtained from the dynamic Models 1 and 2 are likely to be more reliable. At the same time, however, the fact that the main hypothesis failed to pass the robustness test further weakens the evidence supporting the picture of Turkey as an economy where partisan factionalism plays a big role in regional economic performance.

While we considered the 2002 electoral results as exogenous, they may be correlated to previous elections held in the 1990s, in the sense that politicians elected in the mid-1990s from 'old' parties may have switched to the newly founded AKP (while skipping the 1999 legislature). To address such potential concern, a third robustness test excludes the 2002 electoral results from the analysis, hence restricting the panel to the period 2007/2012, for which our instrument allows – by construction – to identify a source of political variation which is exogenous to provinces. Results are presented in Appendix 6. Interestingly, results are overall very similar to the ones from the full panel. All the coefficients show the expected signs, and the shift from the FE to the IV estimator marks as expected a reduction in the explanatory power of the endogenous political variables.



A final test aims at checking the robustness of results against the exclusion of Istanbul, Ankara, and Izmir, Turkey's three biggest cities and economic hubs. The results, presented in Appendix 7, show that coefficients are virtually identical to the ones of the full specification.<sup>24</sup>

## **Discussion**

Overall, the results suggest the existence of a positive, inverted-U shaped relationship between the provincial votes for the central Government and the rate of per capita GVA growth. They also provide preliminary evidence that such relationship seems – at least partly – driven by the heterogeneous distribution of State goods across provinces, as put forward in the theoretical section. At the same time, however, the magnitude of such influence is small, not robust in our third specification, and in any case considerably less relevant than the one of the other socio-economic controls. Once the potential endogeneity between votes and regional growth is controlled for, the causal effect of the Government's preferential treatment to electorally aligned constituencies in driving faster regional economic performance is even smaller. Such result is relevant as it shows that, while there are still modest signs of the preferential treatment hypothesis, much of the correlation between votes and regional growth in the baseline specification is actually driven by reverse causality. In other words, the correlation we uncover in the baseline specification is likely to be driven by the electoral support given by fast-growing provinces to the central Government party – a finding which confirms earlier research on the role of positive economic performance in reducing electoral volatility (Akarca and Tansel, 2006) – and only partially by faster growth rates triggered by the Government's preferential treatment of politically aligned constituencies.

The results' implications are threefold. The first concerns the academic and policy debate about distributive politics. While the amount of research asking whether and

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<sup>24</sup> Further tests not presented in the article but available on request show that results are equally stable if we further exclude the other second-tier economic centres of Turkey, namely Adana, Antalya, Kocaeli and Bursa.

how political actors use their control over government resources to strengthen their electoral advantage has experienced a literal ‘explosion’ in recent years (Golden and Min, 2013), almost no studies had so far explored how distributive and ‘allocative games’ may influence not only policy outputs, but also their final economic outcomes. If earlier studies uncovered clear signs of strategic manipulation over the allocation of Turkey’s public investment (Luca and Rodríguez-Pose, 2014), the good news emerging from the current research is that the final impact of votes – via distributive politics – on economic performance is significantly small, and in any case much less relevant than the other socio-economic controls. Such finding is potentially relevant to other countries with high political polarisation and high levels of electorally-motivated distribution of public goods, and where there are hence concerns that cities and regions opposing the incumbent governments may suffer in long-term economic performance. Confirming earlier attempts to measure the impact of electoral factors on regional development (Rodríguez-pose, 1998), our results are reassuring since they suggest that regional economic growth is largely explained by structural socioeconomic factors, and only very marginally by electoral idiosyncratic determinants.

Second, the most relevant predictor of Turkey’s regional per-capita GVA growth is interestingly human capital, whose effect is significantly higher than all other variables. Confirming preliminary findings put forward by Filiztekin (2009), such result is relevant in that it contributes to overcoming the lack of knowledge stressed in the literature about the role played by education and human capital in Turkey’s economic performance (Altuğ et al., 2007). Such results carry relevant implications not only for the academic research but also for policy. Although recent public expenditure on education has increased, Turkey still ranks at the bottom of the OECD members’ list both in terms of education attainment as well as public education expenditure (Bardak and Majcher-Teleon, 2011). Under this light, our results suggest that an increase in the public education expenditure would bring not only social (Dinçer, Kaushal, and Grossman, 2014) but also significant economic benefits. The importance of increasing public investment in education is even higher considering that Turkey has not yet achieved full literacy, and education attainments still lags behind many comparator countries. For example, in 2009 the rates of population aged 15-64 with Lower secondary (ISCED 0-2), Upper secondary (ISCED 3-4) and

Tertiary (ISCED 5-6) education were respectively 70.8/19.2/10.0 in Turkey while 27.6/53.2/19.2 in Bulgaria, 39.8/40.2/20.0 in Greece and 31.5/46.4/22.1 in the EU-27 average (ibid.).

Last but not least, the results speak to the debate on the extent to which Turkey is progressing towards the achievement of more democratic and inclusive institutions. Throughout its republican history Turkey has traditionally suffered from fragmented politics and factionalism. Following the economic crisis of 2001, as well as the start of Accession Negotiations to the EU, the country started a series of public reforms inspired by good governance principles and democratic accountability. The policy path followed by Erdoğan's AK Party succeeding its electoral victory in 2002 has been largely depicted by international media as a commitment to such democratisation process. Yet, the concrete extent of such process is debated. While criticising Erdoğan's recent autocratic stance, Acemoğlu (2014) shows optimism about Turkey's long-term democratic prospects. In the economic realm, Acemoğlu and Robinson (2013b) go further by hypothesising that the beginning of the AKP government in 2002 may have witnessed an opening of economic opportunities to Anatolian entrepreneurs with conservative and religious backgrounds, thus broadening the geographical and social basis of entrepreneurship (Acemoğlu and Robinson, 2013b) and providing new scope for Turkey's economic growth. Although in a preliminary way – given the scope for misspecification in a simple political economic regional growth model –, our findings may indeed support Acemoğlu and Robinson (2013b)'s claims. Unfortunately the available data does not allow us to carry out the analysis for the most recent years, during which tensions between the supporters and the opponents of the government have escalated and the autocratic and confrontational tone of former Prime Minister and current President Erdoğan have increased dramatically. If drawing strong conclusions from our limited evidence is probably incorrect, it is at least fair to say that our results provide a picture of Turkey's economy during the 2000s where partisan factionalism had modest effects and did not topple standard drivers of regional growth.

While the analysis provides a relatively positive picture about the impact of political cleavages on Turkey's economy, such picture should not however be confounded with optimistic narratives about Turkey's overall institutional dynamics. First,

quantitative analyses carried out at regional level can capture aggregate territorial effects but falls short in uncovering informal channels through which state-economy relations may manifest. As underlined by Piattoni (2001), interest politics should not be seen in monolithic terms but, rather, as a ladder that climbs upward according to the level at which particular interests are aggregated: at the lowest possible level, determining *clientelism* and *cronyism* networks pivoting around individuals; and at higher levels determining, among others, *pork-barrelling* practices based on constituencies and local communities, and *consociationism* based on religious or ethnic groups. Our analysis only captures the last two. An alternative hypothesis is that the effects of the government's preferential treatment may have influenced individual people and business groups, rather than entire territories. For example, what may really depend on political favouritism may not be the allocation of monies across provinces but, rather, the award of favours to specific, individual business groups. Buğra and Savaşkan (2014) and Özcan and Gündüz (2015) provide for example evidence in this direction. Second, some commenters have recently argued that optimistic narratives about Turkish socioeconomic change fail to uncover a *de-facto* institutional deterioration (Meyersson and Rodrik, 2014). In other words, a possibility is that positive performance in the economic realm has been coupled with a deterioration of political and democratic liberties. Under such light positive economic performance may indeed explain why the constant increase in Erdoğan's autocratic stance has not led to a decrease in his electoral success. Yet, the strongly confrontational and autocratic stance adopted by Erdoğan in recent years (Arbatlı, 2014; Meyersson and Rodrik, 2014) may mark a lost opportunity to capitalize any positive societal achievements in the long term.

Two further caveats are in point. First, the analysis has focused its attention on party politics, grounding such decision in the significant amount of research stressing the role of parties in capturing the key Turkish political cleavages likely to influence the economic environment. Political parties in Turkey have traditionally stood "out as the penultimate political institution of populist patronage" (Kalaycioğlu, 2001, p. 63). Yet, we cannot rule out the possibility that there may be other political dimensions as much as relevant as partisan articulations. Buğra (1998) and Buğra and Savaşkan (2014) have for example pointed to the role of business associations as key societal fault-line markers. While they acknowledge how "the impact of these two types of

actors [parties and business organizations] on the economic environment is not exercised through separate channels, but appears the outcome of strategies that mutually support each other” (Buğra and Savaşkan, 2014, p. 31), further quantitative research on business associations would ideally complement our analysis on partisanship.<sup>25</sup> Last but not least, our theoretical model and empirical strategy explore the link between votes and regional economic growth under a single-party government, so we don’t have evidence to assess what results could be expected under a coalition government. Drawing from the distributive politics literature, our speculation is that the link between votes, allocation of state goods and regional growth would be more complex. Analysing the distribution of Turkey’s investment incentives during the 1990s – a period marked by coalitions among very heterogeneous political parties – Kemahlioğlu (2008) for example shows that allocative patterns were not aimed at favouring core constituencies, but rather at punishing coalition partners with the goal of preventing them from claiming credit of the benefits allocated. We would hence expect that such complexity may be mirrored in the final link between votes and regional economic growth.

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<sup>25</sup> One key, empirical issue preventing from carrying out such an analysis is – alas – the lack of extensive data on business associations.

## 5. Conclusion

The analysis of institutions in ensuring the efficient functioning of markets and in consequently fostering economic development has become a key topic in the literature on economic growth and development (cf. Rodríguez-Pose, 2013). In spite of such burgeoning interest, the research specifically exploring the impact of political institutions on regional economic development has been significantly scarcer. In particular, almost no studies have so far explored how votes and partisan cleavages may impact on local and regional economic development. To bridge such gap the article tested whether, in countries where governments' disproportionate power to influence the bureaucracy is coupled with strong political polarisation, the economic performance of regions and constituencies politically close to the incumbent governments may benefit from a preferential treatment in the management of state resources, and may thus experience faster economic growth. The analysis first assessed the link between votes for the incumbent national party and the amount of public developmental resources channelled to provinces, uncovering a clear pattern of preferential distribution of resources to core constituencies. Second, it defined a political economy model of regional growth and tested it to Turkey's 81 provinces over 2004-2012. The empirical strategy is first based on a Fixed Effect estimator. To rule out the potential risk of reverse causality and omitted variable bias, we then adopt a shift-share Instrumental Variable strategy inspired by the work of Bartik (1991).

The results of the analysis lead to both good news and bad news. The bad news is the fact that pork-barrelling and the partisan closeness to the central Government seem effectively to influence sub-national economic growth. Compared for example to the case of France studied by Cadot et al. (2006), who did not find *any* effect of pork-barrelling on the final economic performance of French regions, our results partly confirm the concerns put forward in Turkey by Buğra and Savaşkan (2012) and Heper and Keyman (2006). The good news emerging from the research is that the impact of votes on regional economic performance is significantly small and in any case considerably less relevant than the one of other more 'standard' socio-economic drivers of growth. Furthermore, after controlling for the potential reverse causality

between dependent and explanatory variables, the causal effect of electoral politics on regional economic performance appear even smaller. In other words, the correlation we uncover in the baseline specification between votes for the Governing party and regional growth is likely to be driven by the electoral support given by fast-growing provinces to the central Government, and only partially by the Government's preferential treatment of politically aligned constituencies. Considering the concerns of cities and provinces not voting for the national incumbent party of being penalised in long-term economic opportunities, results are reassuring.

While the analysis provides a relatively positive picture about the impact of political cleavages on Turkey's economy, such picture should not be confounded with optimistic narratives about the country's overall institutional dynamics. Commenters have increasingly documented the autocratic and authoritarian stance adopted by Turkey's former Prime Minister and current President Erdoğan in recent years (Arbatlı, 2014; Meyersson and Rodrik, 2014). Under such light, the positive economic performance experienced in many provinces may indeed explain why the constant increase in Erdoğan's autocratic stance has not led to a decrease in his electoral success. In line with the pre-AKP period (Akarca and Tansel, 2006), results seem to confirm the importance of economic growth as one of the factors explaining the constant electoral success of the AKP since 2002. Yet, in the long term, the strongly confrontational and autocratic stance adopted by the former Prime Minister/new President in recent years may mark a lost opportunity to capitalize any positive societal achievements from the first years in power. Interestingly, the research also uncovered that across the socioeconomic variables human capital – measured as percentage of the workforce with upper secondary education – appears as the most relevant predictor of per-capita Gross Value Added growth. Although recent public expenditure on education has increased, Turkey still lags behind and ranks at the bottom of the OECD members' list both in terms of education attainment as well as public education expenditure (Bardak and Majcher-Teleon, 2011). A stronger focus on human capital accumulation as a strategy for regional development may hence bring not only social but also significant economic benefits. Besides, given the role of the central state in providing education at the sub-national level, this is perhaps one further area of enquiry into the political economy of development in Turkey and elsewhere.

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## Appendixes

### Appendix 1. Variables: review of main hypotheses and their operationalization.

Variable	Description	Unit	Source
Gross Value Added	Per capita gross value added (GVA) at 2012 prices.	Ln, TL at 2012 prices	TURKSTAT Regional Database
AKP	Percentage of votes to the central governing party (AKP) in national elections (2002, 2007, 2011)	Percent points	European Election Database
Close race	Negative absolute value of the vote difference between the incumbent party and its main challenger in each province	Percent points	Own calculation
Public investment	Per-capita fixed capital investments in transport and infrastructural networks allocated to each province	Ln, TL at 2012 prices	Own calculation on data from the Ministry of Development
Investment incentives	Number of investment incentive certificates annually awarded to private firms per 1000 inhabitants	Ln count	Own calculation on data from the Ministry of Economy
Entrepreneurship	Net annual variation in regional economic units per 1000 inhabitants	Count	Own calculation on data from TURKSTAT Regional Database
Human capital	Percentage of economically active population (Labour force) aged 15 years old and over with upper secondary education (ISCED 3-4)	Percent points	TURKSTAT Regional Database
Manufacturing	Percentage of workforce aged 15 years and over employed in manufacturing (NACE Rev. 1)	Percent points	TURKSTAT Regional Database
Rurality	Percentage of population living in rural district within each province	Percent points	TURKSTAT Regional Database
Private investment	Annual variation in per-capita total private investment in tangible goods	1000 TL at 2012 prices	Own calculations on data from TURKSTAT Regional Database
Population	Total provincial population	1000 people	TURKSTAT Regional Database, OECD

## Appendix 2. Summary statistics.

Variable	Mean	Std. dev.	Min	Max
GVA growth	0.04	0.05	-0.10	0.16
GVA	9.36	0.39	8.55	10.14
AKP	45.04	14.81	6.50	84.82
Close race	-25.40	15.16	-70.4	-0.10
Public investment	3.03	1.42	0.00	9.21
Investment incentives	-3.17	0.63	-6.91	-1.70
Entrepreneurship	1.01	2.56	-6.28	6.87
Human capital	0.20	0.04	0.10	0.31
Manufacturing	20.96	9.44	4.70	46.30
Rurality	37.85	13.68	1.01	70.08
Private investment	728.11	3006.66	-20214.25	17152.98
Population	891.44	1497.70	65.13	13624.24

## Appendix 3. Pairwise correlations among variables.

	GVA growth	GVA	AKP	Close race	Public Inv.	Inv. Inc.	Entrepr.	Human capital	Manuf.	Rurality	Private Inv.	Pop.
GVA growth	1 (0.000)											
GVA	-0.093* (0.017)	1 (0.000)										
AKP	-0.078* (0.047)	0.071 (0.054)	1 (0.000)									
Close race	-0.001 (0.991)	0.120* (0.001)	-0.596* (0.000)	1 (0.000)								
Public inv.	0.016 (0.678)	0.101* (0.006)	0.205* (0.000)	-0.098* (0.003)	1 (0.000)							
Inv. Inc.	0.221* (0.000)	0.437* (0.000)	0.248* (0.000)	0.002 (0.951)	0.156* (0.000)	1 (0.000)						
Entrepr.	0.280* (0.000)	-0.009 (0.816)	-0.103* (0.009)	0.057 (0.146)	-0.015 (0.701)	0.019 (0.625)	1 (0.000)					
Human cap.	0.034 (0.389)	0.599* (0.000)	-0.051 (0.173)	0.033 (0.375)	0.117* (0.002)	0.143* (0.000)	0.022 (0.577)	1 (0.000)				
Manuf.	-0.044 (0.295)	0.659* (0.000)	0.026 (0.507)	0.056 (0.158)	0.019 (0.628)	0.303* (0.000)	-0.050 (0.207)	0.521** (0.000)	1 (0.000)			
Rurality	0.047 (0.269)	-0.437* (0.000)	-0.137* (0.000)	0.031 (0.378)	-0.230* (0.000)	-0.272* (0.000)	0.032 (0.414)	-0.448* (0.000)	-0.555* (0.000)	1 (0.000)		
Private inv.	0.256* (0.000)	0.101* (0.005)	-0.037 (0.352)	0.047 (0.234)	-0.036 (0.363)	0.124* (0.002)	0.233* (0.000)	0.032 (0.413)	0.118* (0.003)	0.004 (0.916)	1 (0.000)	
Population	-0.039 (0.314)	0.293* (0.000)	-0.002 (0.956)	0.120* (0.000)	0.080* (0.006)	0.082* (0.011)	0.032 (0.423)	0.231* (0.000)	0.324* (0.000)	-0.526* (0.000)	-0.059 (0.136)	1 (0.000)

Standard errors in parentheses, \* p<0.05.

**Appendix 4.** Multivariate regressions of the per capita Gross Value Added growth rate: FE and IV estimates adopting an alternative measure of electoral competition (2004-2012). All explanatory variables are lagged by one year.

	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
	FE				IV			
Lagged GVA	-0.336*** (0.0256)	-0.343*** (0.0247)	-0.366*** (0.0269)	-0.469*** (0.0244)	-0.337*** (0.0278)	-0.344*** (0.0277)	-0.370*** (0.0286)	-0.480*** (0.0330)
AKP	0.000810* (0.000465)	0.00105*** (0.000328)	0.000918*** (0.000324)	0.000502 (0.000322)	0.000541 (0.000485)	0.000399 (0.000432)	0.000324 (0.000433)	-0.000247 (0.000456)
Close race		0.000421*** (0.000148)	0.000411*** (0.000140)	0.000282** (0.000129)		0.000281* (0.000167)	0.000287* (0.000165)	0.000111 (0.000169)
Public inv.			0.00318 (0.00233)	0.00247 (0.00227)			0.00329* (0.00199)	0.00238 (0.00193)
Inv. Inc.			0.00709** (0.00282)	0.00614** (0.00277)			0.00834*** (0.00282)	0.00723*** (0.00272)
Entrepr.				0.00256*** (0.000686)				0.00272*** (0.000697)
Human cap.				0.269*** (0.0870)				0.278*** (0.0667)
Manuf.				0.00226*** (0.000792)				0.00228*** (0.000652)
Rurality				0.00226** (0.00108)				0.00314*** (0.00112)
Private inv.				0.00145*** (0.000293)				0.00158*** (0.000437)
Population				4.09e-06 (5.63e-06)				2.95e-06 (1.04e-05)
Constant	3.130*** (0.229)	3.198*** (0.224)	3.426*** (0.246)	4.183*** (0.226)	3.155*** (0.257)	3.229*** (0.256)	3.485*** (0.266)	4.273*** (0.294)
Observations	648	648	648	648	648	648	648	648
Number of id	81	81	81	81	81	81	81	81
Adjusted R <sup>2</sup>	0.629	0.634	0.639	0.676	//	//	//	//
First stage F	//	//	//	//	13.81	16.62	17.29	18.10
Prov FE	Yes	yes	yes	yes	yes	yes	yes	yes
Year FE	Yes	yes	yes	yes	yes	yes	yes	yes

Robust, clustered standard errors in parentheses, \*\*\* p<0.01, \*\* p<0.05, \* p<0.

**Appendix 5.** Multivariate regressions of the per capita Gross Value Added growth rate: FE and IV estimates including the dependent variable in levels instead of first difference (2004-2012). All explanatory variables are lagged by one year.

	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
	FE				IV			
AKP	0.000514 (0.000937)	0.00247** (0.00114)	0.00214** (0.00106)	0.000520 (0.000935)	-5.77e-05 (0.000689)	0.00129 (0.000954)	0.00107 (0.000907)	-0.000818 (0.000829)
AKP^2		-2.18e-05 (1.52e-05)	-2.18e-05 (1.36e-05)	-7.38e-06 (1.07e-05)		-4.09e-05*** (9.42e-06)	-3.85e-05*** (8.95e-06)	-1.35e-05* (7.86e-06)
Public inv.			0.0102*** (0.00311)	0.00476* (0.00267)			0.0101*** (0.00287)	0.00456* (0.00243)
Inv. Inc.			0.0203*** (0.00450)	0.0115*** (0.00403)			0.0258*** (0.00401)	0.0148*** (0.00343)
Entrepr.				0.00278*** (0.000866)				0.00310*** (0.000879)
Human cap.				0.469*** (0.0969)				0.502*** (0.0830)
Manuf.				0.00726*** (0.00127)				0.00678*** (0.000737)
Rurality				0.00424** (0.00197)				0.00569*** (0.00138)
Private inv.				0.00142*** (0.000425)				0.00176*** (0.000552)
Population				2.37e-06 (9.04e-06)				-2.72e-06 (1.33e-05)
Constant	9.238*** (0.0302)	9.201*** (0.0245)	9.236*** (0.0334)	8.858*** (0.0756)	9.257*** (0.0235)	9.266*** (0.0239)	9.314*** (0.0319)	8.870*** (0.0562)
Observations	648	648	648	648	648	648	648	648
Number of id	81	81	81	81	81	81	81	81
Adjusted R <sup>2</sup>	0.747	0.750	0.769	0.837	//	//	//	//
First stage F	//	//	//	//	15.13	13.24	13.74	13.92
Prov FE	Yes	yes	yes	yes	yes	yes	yes	yes
Year FE	Yes	yes	yes	yes	yes	yes	yes	yes

Robust, clustered standard errors in parentheses, \*\*\* p<0.01, \*\* p<0.05, \* p<0.



**Appendix 6.** Multivariate regressions of regional per capita Gross Value Added growth rate: FE and IV estimates limiting the panel to the period 2007-2012. All explanatory variables are lagged by one year.

	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
	FE				IV			
Lagged GVA	-0.412*** (0.0357)	-0.412*** (0.0364)	-0.434*** (0.0405)	-0.498*** (0.0396)	-0.411*** (0.0345)	-0.415*** (0.0349)	-0.443*** (0.0365)	-0.510*** (0.0399)
AKP	0.000685 (0.000661)	0.00344*** (0.000659)	0.00336*** (0.000691)	0.00218*** (0.000722)	0.00138* (0.000749)	0.00253*** (0.000948)	0.00248*** (0.000945)	0.000920 (0.000990)
AKP^2		-3.07e-05*** (9.24e-06)	-3.07e-05*** (9.25e-06)	-2.16e-05** (9.08e-06)		-3.91e-05*** (9.17e-06)	-3.94e-05*** (9.14e-06)	-2.69e-05*** (9.35e-06)
Public inv.			0.00159 (0.00229)	0.00162 (0.00238)			0.00185 (0.00228)	0.00205 (0.00225)
Inv. Inc.			0.00634* (0.00343)	0.00489 (0.00343)			0.00830** (0.00328)	0.00667** (0.00321)
Entrepr.				0.00297*** (0.000856)				0.00353*** (0.000866)
Human cap.				0.211** (0.103)				0.256*** (0.0933)
Manuf.				0.00155** (0.000748)				0.00122 (0.000827)
Rurality				0.00449*** (0.00168)				0.00548*** (0.00174)
Private inv.				0.000840*** (0.000313)				0.00105** (0.000481)
Population				-1.83e-05* (1.04e-05)				-2.77e-05 (1.98e-05)
Constant	3.849*** (0.326)	3.802*** (0.344)	4.020*** (0.384)	4.389*** (0.382)	3.815*** (0.322)	3.869*** (0.326)	4.149*** (0.343)	4.523*** (0.358)
Observations	486	486	486	486	486	486	486	486
Number of id	81	81	81	81	81	81	81	81
Adjusted R <sup>2</sup>	0.658	0.672	0.674	0.698	//	//	//	//
First stage F	//	//	//	//	16.66	12.09	12.02	12.03
Prov FE	Yes	yes	yes	yes	yes	yes	yes	yes
Year FE	Yes	yes	yes	yes	yes	yes	yes	yes

Robust, clustered standard errors in parentheses, \*\*\* p<0.01, \*\* p<0.05, \* p<0.

**Appendix 7.** Multivariate regressions of regional per capita Gross Value Added growth rate: FE and IV estimates excluding Istanbul, Ankara and Izmir. All explanatory variables are lagged by one year.

	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
	FE				IV			
Lagged GVA	-0.336*** (0.0260)	-0.341*** (0.0255)	-0.365*** (0.0275)	-0.466*** (0.0245)	-0.338*** (0.0284)	-0.354*** (0.0293)	-0.384*** (0.0302)	-0.488*** (0.0342)
AKP	0.000785* (0.000460)	0.00195*** (0.000494)	0.00185*** (0.000491)	0.00111* (0.000579)	0.000560 (0.000489)	0.00123* (0.000658)	0.00115* (0.000652)	0.000296 (0.000710)
AKP^2		-1.30e-05* (6.99e-06)	-1.33e-05* (6.68e-06)	-8.71e-06 (6.68e-06)		-2.02e-05*** (6.49e-06)	-2.04e-05*** (6.45e-06)	-1.32e-05* (6.71e-06)
Public inv.			0.00343 (0.00239)	0.00273 (0.00238)			0.00360* (0.00212)	0.00267 (0.00203)
Inv. Inc.			0.00757** (0.00290)	0.00664** (0.00277)			0.0107*** (0.00296)	0.00893*** (0.00283)
Entrepr.				0.00289*** (0.000673)				0.00310*** (0.000735)
Human cap.				0.264*** (0.0878)				0.294*** (0.0692)
Manuf.				0.00225** (0.000858)				0.00214*** (0.000690)
Rurality				0.00206* (0.00115)				0.00303*** (0.00115)
Private inv.				0.00150*** (0.000305)				0.00171*** (0.000451)
Population				-3.73e-06 (2.68e-05)				-7.41e-06 (2.60e-05)
Constant	3.127*** (0.233)	3.154*** (0.231)	3.383*** (0.250)	4.146*** (0.226)	3.150*** (0.262)	3.305*** (0.269)	3.601*** (0.279)	4.349*** (0.306)
Observations	624	624	624	624	624	624	624	624
Number of id	78	78	78	78	78	78	78	78
Adjusted R <sup>2</sup>	0.629	0.633	0.640	0.682	//	//	//	//
First stage F	//	//	//	//	13.93	9.62	9.94	10.40
Prov FE	Yes	yes	yes	yes	yes	yes	yes	yes
Year FE	Yes	yes	yes	yes	yes	yes	yes	yes

Robust, clustered standard errors in parentheses, \*\*\* p<0.01, \*\* p<0.05, \* p<0.

## **Paper 3**

**Do bureaucracies enhance or constrain development policy effectiveness? Evidence from Turkey's central management of public investment**

# **Do bureaucracies enhance or constraint development policy effectiveness? Evidence from Turkey's central management of public investment**

Davide Luca

## **Abstract**

While Turkey's use of public monies has been frequently marred by populism, clientelism, and short-term electoral rewarding, recent research suggests that the allocation of public investment across Turkish provinces during the last decade has been more responsive to socioeconomic needs than electoral politics. The current paper aims to understand this empirical puzzle by: (1) exploring the extent to which the management of Turkey's public investment is effectively focused on publicly-oriented goals, as opposed to being used as a tool for particularistic redistribution and electoral rewarding; (2) explaining whether the institutional characteristics of the economic bureaucracy condition the attainment of publicly-oriented goals. The analysis draws on in-depth elite interviews. Results suggest that the existence of a capable and authoritative organisation directing the project cycle – the Ministry of Development, former State Planning Organisation – has positively contributed to the technical management of investments. Empirical evidence also indicates how the organisation is insufficiently insulated vis-à-vis the government, and hence its ability to implement 'sound' policies is contingent on the political context. Such results confirm the literature on developmental states, which suggests how a key precondition for sound policies is bureaucratic autonomy. Nevertheless, the analysis also uncovers significant resistance from the bureaucrats against measures which would increase bureaucratic efficiency and transparency. Overall, findings suggest that, to enhance policy-effectiveness, bureaucracies must be not only capable and autonomous, but also accountable.

*Key words:* Bureaucracies; state effectiveness; public goods; autonomy; accountability; Turkey.

*JEL Classification:* H11; H83; O21; O53; R58.

## 1. Introduction

Like in many other countries around the world, the use of public monies in Turkey has been frequently distorted by populism, clientelism, and policies driven by short-term electoral interests rather than long-term developmental goals (cf. Heper and Keyman, 1998; Kalaycioğlu, 2001). Recent research on the allocation of Turkish public investment during the last decade has yet uncovered a picture in which the geographical distribution of public goods responds more to socioeconomic need than distributive politics considerations (Luca and Rodríguez-Pose, 2015). The current paper aims to understand such empirical puzzle by: (1) exploring in more depth whether Turkey's public investment project cycle is currently managed effectively. We define policy effectiveness as the ability to formulate and pursue objectives coherently with their policy mandate, regardless of the preferences of other actors in their environment (Echeverri-Gent, 1992); (2) explaining what is the role played by the Ministry of Development – the organisation in charge of investment allocation and overall coordination – in ensuring that investment decisions remain focused on publicly-oriented goals, as opposed to purely becoming a tool for particularistic redistribution and rewarding electoral support (Biddle, Milor, 1995).<sup>26</sup>

The research goal is inspired by the literature on state effectiveness which, after almost a century since Max Weber (1921)'s seminal work on bureaucracies, still discusses how, and when, public sector organisations can contribute to effectively provide the critical public goods necessary for development. On the one hand, the literature on the developmental state (Amsden, 1989; Evans, 1995; Evans et al., 2014; Rauch and Evans, 1999; Wade, 1990) has pointed out how capable and insulated bureaucracies are important preconditions for the sound management of development, particularly in contexts where the political class is prone to short-term, populist decision-making and clientelistic redistributive goals. On the other hand, however, the public choice literature (Huber and Shipan, 2001; Huber, Shipan, and Pfahler, 2001; Niskanen, 1971, 2001) has stressed the inherent self-interested nature of

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<sup>26</sup> In the real world, the distinction between the two ideal types may be blurred, in the sense that policies might be aimed at electoral rewarding and yet address social objectives. Like any ideal-type, the depiction of the two policy objectives as completely dichotomous is hence a heuristic device.

bureaucratic agents, and hence emphasised the importance of mechanisms aimed at ensuring oversight over bureaucrats to avoid the latter's potential predatory and rent-seeking behaviours.

This contribution draws on elite, semi-structured interviews among Turkey's economic bureaucracy, as well as on the analysis of national and international policy documents. To the best of our knowledge, the analysis is the first attempt to critically explore the micro-foundations of the Turkish public investment project cycle. The article first contributes to the literature on distributive politics (cf. Golden and Min, 2013) by complementing Luca and Rodríguez-Pose's (2015) analysis on the territorial distribution of public investment and providing novel insights on how dynamics of tactical redistribution in contemporary Turkey are concretely shaped. Second, and most importantly, the article also contributes to the debate on how to achieve and foster state capacity in emerging and middle-income countries similar to Turkey. It does so by identifying the specific institutional characteristics which promoted/inhibited the effective management of the investment project cycle in the Turkish case.

Results suggest that the institutional characteristics of the Ministry of Development – comparatively more capable and authoritative than most other bureaucratic agencies in the country – have positively contributed to a technical management of investment projects. Results also show, however, how the organisation is insufficiently insulated vis-à-vis the government, and hence the effective management of funds is strongly dependent on the political elite's 'will to deliver'. Luca and Rodríguez-Pose's (2015) results showing limited pork-barrelling allocations must hence be interpreted as contingent to the government willingness to follow the 'good governance' reforms implemented after the 2001 economic crisis and also triggered by the EU accession negotiations (Luca, 2011; Özdemir-Tsarouhas, 2013). In comparison, in periods such as the 1990s, when the political system was in a state of flux (Sayarı, 2002), the bureaucracy was unable to shield from pressure and deliver. Such results confirm the literature on developmental states, which emphasizes the existence of strong and autonomous bureaucracies as a key precondition for sound policies. At the same time, however, the analysis also uncovers significant resistance from groups within the organisation against the implementation of reforms aimed at increasing bureaucratic

efficiency and transparency. Overall, in line with very recent international research on state effectiveness (cf. Azulai et al., 2014), findings hence suggest that, to foster policy-effectiveness, bureaucracies must be not only capable, insulated, and aware of societal needs, but also accountable.

The remainder of the paper is organised as follows: section two provides a review of the literature, and draws from it the main research hypotheses. Section three offers an overview of Turkey's state and policy effectiveness tradition, while section four discusses the methodology. Section five presents the empirical findings. Section six eventually leads the discussion to a conclusion.

## **2. The role of bureaucracies in fostering state effectiveness: literature review and research hypotheses**

The presence of a well-functioning public sector able to deliver effective policies is a key precondition to foster economic growth and social transformation (Azulai et al., 2014).<sup>27</sup> Effectiveness depends on the existence of a technical project cycle, that is mechanisms allowing to translate visions and goals into well-informed, disciplined, and accountable decisions (Milio, 2007; World Bank, 1997). Yet, while there is universal agreement on the importance of technical capacity, debate still exists on which institutional conditions are necessary to ensure that such technical management measures are concretely implemented and followed. Too frequently, the effective geographical allocation and management of key public services and goods fails because of distorted bureaucratic and political incentives (Diaz-Cayeros, Estévez, and Magaloni, 2012). These concerns are particularly relevant in the developing world where, because of weaker societal institutions, the provision of public goods is more likely to be distorted around redistributive goals and clientelistic networks aimed at pleasing partisan supporters in the short-term (Diaz-Cayeros, Magaloni, and Weingast, 2007; Diaz-Cayeros et al., 2012; Knutsen, 2013), rather than serving long-term development goals. Drawing from the case of Turkey, Kalayıcıoğlu has underlined how

“[it] is an irony to note that the practice of popular government [electoral democracy, A./N.] and good governance seem to be inversely related [...] Hence, in effect, democracy is equated with populism practiced through clientelistic networks, which often requires the bending of rules and laws to distribute benefits [...] Promotion of patronage undermines law enforcement and erodes

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<sup>27</sup> Empirically, we interpret effectiveness as the extent to which the allocation of public investment remains focused on the publicly oriented goals of increasing the overall national welfare and/or reducing the inter-regional disparities in people’s income and capabilities, as opposed to becoming a tool used for short-term, purely strategic purposes (Biddle, Milor, 1995). Given the scope of the paper, we do not discuss in depth whether there exist – or not – a trade-off between favouring overall national efficiency and reducing inter-regional imbalances, an issue at the centre of much disagreement among the regional science literature (Farole, Rodríguez-Pose, and Storper, 2011; Martin, 2008; Osberg, 1995; World Bank, 2009). Our choice is motivated by the fact that, although grounded in different policy preferences, both objectives are not driven by short-term strategic rationales but by long-term policy objectives.



the rule of law in the country. Hence a dilemma emerges: democracy is maintained at the expenses of the rule of law” (Kalaycioğlu, 2001, p. 66, 67, 63).

In the cases of Thailand and Indonesia, after the shift to democracy politicians used their control of the legislature and the prime minister’s office, as well as pork-barrelling spending in the countryside, to build their own patron-client networks (Rock, 2009). Exploring the experience of Thailand, Rock argues that politicians “did so by carrying out a frontal and corrupt assault on the state so they could reward their supporters and build their coffers for the next election” (ibid., p. 941). Electoral politics is inherently particularistic, in the sense that the exchange of votes and other types of political support in favour of public decisions with divisible benefits spans virtually across all political systems (Piattoni, 2001). Yet, in ‘weak democracies’ such particularistic behaviours may end up in ‘tragic underdevelopment equilibria’ where voters contribute maintaining in power political coalitions whose actions are detrimental for the overall societal development (Blaydes, 2010; Diaz-Cayeros et al., 2007).

The literature tradition rooted in economic sociology and international development has hence stressed how capable bureaucracies insulated from politicians may be beneficial for effective policy-making. The existence of such bureaucracies may keep the state and its developmental policies at bay from interest groups, as well as from politicians’ short-term objectives. The literature on the developmental state provides one of the strongest positions of how ‘Weberian’ state structures may be a prerequisite for ensuring effective policymaking aimed at fostering economic growth in emerging economies (Amsden, 1989; Evans et al., 2014; Moon and Prasad, 1994; Rauch and Evans, 1999; Wade, 1990). The comparative ‘developmental advantage’ of rational, technocratic structures lies in their intrinsic strength in designing and carrying out policies which are politically difficult but critically important (Eisner, 1993). If the bureaucracy is strong and have enough autonomy to resist political pressure and interferences by rent-seeking actors, it will be more able to promote development and formulate policies in the public interest.

Drawing from such literature our first hypothesis is that, conditional on the existence of technical capacity, policy effectiveness is positively related to the extent to which the economic bureaucracy enjoys insulation from external actors.

Rauch and Evans (1999) in particular suggest how insulation depends on some key ‘Weberian features’, namely meritocratic recruitment, salary competitiveness with respect to other civil services and the private sector, internal promotion and career stability. They also provide cross-country empirical evidence showing how the link between differential government performance and economic growth across the world is significantly correlated to the existence of bureaucracies with the features described above. Analysing the relationship between political appointees within the bureaucracy and management performance, Lewis (2007) shows that US federal programmes administered by politically appointed bureau chiefs received systematically lower evaluation scores than programmes run by chiefs from the civil service. Rasul and Rogger (2013) further demonstrate that public sector project completion rates in Nigeria are positively correlated with bureaucrats’ autonomy.

Overall, Evans (1995) argues that developmental states are those where a strong bureaucracy is embedded enough in society to ensure that the state elite is aware of and responsive to societal needs, but at the same time independent enough to be protected against interferences from special interest groups and politicians. While Evans (1995)’s theory provides important insights into the relations between bureaucracies and their external, social environment, his argument still leaves open questions on the specific extent to which bureaucratic agencies’ should be insulated from democratic politics.<sup>28</sup>

The literature stemming from the public choice tradition has indeed put the mechanisms to control the bureaucracy at the core of its interest. Stressing the inherent self-interested nature of bureaucratic agents, such research points to the role played by mechanisms aimed at ensuring control over bureaucrats as a key factor to avoid their possible predatory and rent-seeking behaviours (Chang, de Figueiredo, Weingast, and Weingast, 2001; Huber and Shipan, 2001; Niskanen, 2001). As Downs (1967) and Niskanen (1971)’s seminal works on bureaucracy go, in the absence of

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<sup>28</sup> Interestingly, while most of the literature has taken a positive view of developmental states, Kohli (2004) rightly stresses how a country such as South Korea – one of the most discussed examples of effective developmental states – has been characterized by cohesive politics, i.e. “by centralised and purposive authority structures that often penetrate deep into the society” (p. 10) to the extent that it shared characteristics with fascist states of interwar Europe and Japan.

control self-interested and rational bureaucrats will try to maximize their own utility and hence act in defiance of the public interest. Bureaucratic performance is hence explained following a principal-agent model, according to which a principal (the legislator) acts as an outside monitor and can reduce inefficiencies and improve delivery of services by controlling the opportunistic behaviours of his bureaucratic agent (Huber et al., 2001; Niskanen, 2001).

Successive scholars have further developed such argument to account for more complex conditions and considered the possibility that there may be multiple principals (Olsen, 2015). The literature explores cases where the room of action of the bureaucracy may be shaped not only by legislators but also by interest groups (e.g. (Banks and Weingast, 1992; Bendor and Moe, 1985; Waller and Walsh, 1996) and by individual influential veto players (e.g. Moraski and Shipan, 1999). The overall argument is however clear: bureaucrats are modelled as interested in “some combination of bigger budgets, more slack, achieving policy goals, and avoiding oversight” (Bendor and Moe, 1985, p. 757). In the absence of control by politicians, bureaucracies will hence work against the interest of society, as “the very expertise that bureaucrats and other actors enjoy, along with their structural role in policy processes, provides them with opportunities to work against the interest of politicians and their supporters” (Huber and Shipan, 2001, p. 2).

The second hypothesis hence suggests that monitoring measures and mechanisms to ensure bureaucrats’ accountability positively influence policy effectiveness.

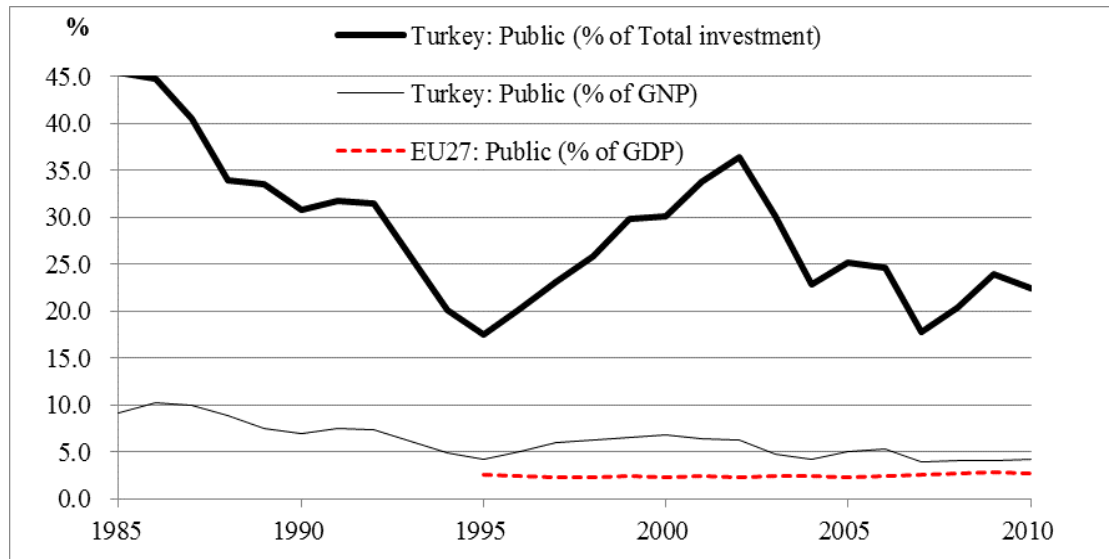
To conclude, a tension between apparently contradictory hypotheses still informs the literature on the link between bureaucracies and state effectiveness (Hopkin and Rodríguez-pose, 2007; Hopkin, 2002). The article’s remainder will explore the extent to which these different hypotheses help explain the case of public investment management in Turkey.

### 3. State and policy effectiveness traditions in Turkey

Similarly to other late industrializing countries, the development of the Turkish economy as well as its private sector in the twentieth century was marked by the crucial role played by the state (Buğra and Savaşkan, 2014). For more than nine decades Turkey's developmental state has been the symbol of nation building (Kezer, 2009; Secor, 2007) and has mobilized resources for social and economic change. Within the scope of economic nationalism, the state undertook enormous efforts and massive projects for the development of infrastructures. Particularly during the two decades of one-party ruling (1923-1945), the state was dominated by a strong consensus among three key groups: intellectuals, the army, and civil servants. After the first military coup in 1960, the military set in place measures aimed at reasserting the state power over the political populist drift and the erosion of bureaucrats' independence occurred during the first years of multiparty system (1945-1960). The 1963 saw the foundation of the State Planning Organisation (*Devlet Pılanlama Teşkilatı*, SPO hereafter), transformed in 2011 into the Ministry of Development, an organization in charge of managing, supervising, and overall coordinating at the central level the country's public development policies (Eraydın, 2000). Since then, the SPO has been in charge of preparing multiannual development plans highlighting the priorities and strategies of all Ministries and other public agencies. Plans are then implemented through annual programmes and annual investment programmes, respectively detailing out annual policy priorities and public investment budgetary allocations.

The state's commitment to developmentalism is written in the Supreme Law. Article 166 of the 1982 Constitution explicitly calls for public policies to tackle developmental imbalances via a 'speedy, balanced, and harmonious development of industry and agriculture throughout the country' (TGNA, 1982). Figure 1 compares the shares of public gross fixed capital investment as a percentage of GDP in Turkey and in the EU27. Along with the shift from a state-oriented to a more market-oriented development model, the public investment share has more than halved during the last 25 years. Yet, it is still significantly higher than in the EU countries.

**Figure 1.** Shares of public gross fixed capital investment in Turkey and in the EU27, 1985-2010.



Source: own elaboration on data from Turkey's Ministry of Development, Eurostat.

In spite of the Turkish state's commitment to a developmental agenda, a significant amount of scholars has nonetheless pointed to the existence of a frequent gap between goals and concrete implementation (Gezici and Hewings, 2004) across many policy areas. Particularly since the transition to a multi-party democracy in 1945, i.e. after the two initial decades of republican history marked by a one-party regime, the process of Turkish modernisation became increasingly mired in strategies of political populism, clientelism, and patronage. Research conducted by sociologists and political scientists has extensively documented the pervasive influence of clientelism and patronage networks over the use of state goods (Güneş-Ayata, 1994a, 1994b; Heper and Keyman, 1998; Sayarı, 1977). As stressed by Barkey (1990), the big loser in this process was the state, which was progressively deprived of its ability to produce coherent policies. Almost three decades ago Heper explained this process by arguing that:

“[D]evelopments prompted the political parties to capture the state by their co-ideologists. Also, particularly from 1973 on, what Kalaycıoğlu calls ‘amoral partyism’ increased by leaps and bounds. From 1973 to 1980 Turkey was governed by coalition governments. As this writer has pointed out elsewhere, the coalition members were each heavily engaged in unrestrained patronage and nepotism [...]. Each ministry was brought under the complete jurisdiction of a

political party as if each ministry had been ‘appropriated’ by a particular political party” (Heper, 1985, pp. 114, 115).

Kalayıcıoğlu (2001) indeed argues that the popular image of democracy in Turkey has been tilted toward an understanding of the democratic regime as a mechanism for the people to gain greater access to the resources of the State. According to the scholar such access is granted by political parties, and elections provide the nexus of exchange between the electorate and the political authorities. The weakening of public institutions vis-à-vis the political realm – the government in particular – reached its peak in the 1980s and 1990s. As a reflection of the changing balance of powers between the bureaucracy and the executive (Heper, 1989, 1990), the significance and quality of Development Plans decreased significantly. Evidence about the pervasiveness of politics into state functioning includes not only the central level but also the subnational ones. Tekeli (1993) has stressed how, following the military coup of 1980, the governors who took control of Istanbul Metropolitan Municipalities abolished the City Planning Office as one of their first actions, as a move to prevent the municipal assembly having constraints on profiting from land rents.

The unsustainability of the 1980s and 1990s’ populist and clientelistic drifts reached its limits with the burst of the 2001 economic crisis, which forced the politicians and the public at large to reconsider the ongoing trajectory (Bakir, 2009; Önis, 2003; Uğur and Yankaya, 2008). The devastating impacts of the crisis triggered a complete political change in the 2002 elections, and the adoption of many landmark public administration reforms. Such reforms were pushed through a small group of top bureaucrats who, with the support of the World Bank, the IMF, and the EU, had been trying to advocate for change since 1995 (Börzel and van Hüllen, 2014; Özdemir-Tsarouhas, 2013). As a former top manager from the Treasury recollects:

“The mentality of the bureaucracy in the 2000s was very much shaped by the economic crises. This created a synergy between the SPO, the Treasury and the Ministry of Finance. [Bureaucrats] managed to come together and create a letter of intent. Bureaucracy championed change. [...] Erdoğan found the reforms proposals in a golden tray.”<sup>29</sup>

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<sup>29</sup> Interview number 1.

The Law number 5018 on Public Financial Management and Control approved in 2003, in particular, drastically restructured the functioning of the entire public finance management, replacing the system in operation since 1927 (Özdemir-Tsarouhas, 2013). The new law incorporates the principles of fiscal transparency and bureaucratic accountability, as well as strengthens pre- and post-spending control mechanisms for fiscal authorities at all levels.<sup>30</sup>

While the reforms reshaped the Turkish public financial management's legislative framework, not enough is known about the extent to which these novelties have been translated into concrete changes. Analysing the changing relationship between politics, business associations, and religion, Buğra and Savaşkan (2014) have indirectly provided a cogent discussion of the politicisation of the state in recent years. They in particular show how after the Erdoğan's led Justice and Welfare Party (*Adalet ve Kalkınma Partisi*, AKP) came into power in 2002, the country's clientelistic networks have increasingly pivoted around the newly formed political organisation.

A recent econometric analysis carried out by Luca and Rodríguez-Pose (2015) on the allocation of public investment across the provinces of Turkey during 2005-2012 nonetheless unveils a picture in which the allocation of investment does respond to short-term criteria, but where the magnitude of electorally-driven strategic allocations is relatively low in comparison to the role played by socioeconomic drivers of investment. In their analysis, even after controlling for distributive politics, socioeconomic disadvantage measures remain more relevant predictors of investment. In the light of the significant amount of literature traditionally stressing the pervasiveness of clientelism, patronage, and politicians' influence over a wider array of Turkey's state functions, are the (relatively) positive results about public investment allocation a proof of an effective investment management? Besides, can effectiveness patterns be explained by specific institutional characteristics of the bureaucracy in charge of investment management? To our best knowledge, almost no studies have explored such topic. Interestingly, this literature gap is not only confined

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<sup>30</sup> As it will become important during the discussion of the empirical results, it is worth stressing that the reforms received resistance among numerous quarters in the bureaucracy (Ozdemir Tsarouhas, 2013).

to the case of Turkey. As Bertelli and Grose (2009) stress, the literature exploring how politicians strategically use public resources has generally been legislature centric, in the sense that although it recognizes that allocations are made in the byways of bureaucracies, it has mostly focused its attention on the role of governments and parliamentarians, and much less on the specific role played by bureaucratic agencies. Biddle and Milor (1995) have seminally analysed the role of the SPO in determining the effectiveness of investment incentives to the private sector. Apart from their seminal contribution, yet, no research has ever explored the link between the organisation and the effectiveness of public investment.



#### 4. Methodology

The methodology is based on qualitative techniques. The fieldwork was conducted between October and December 2014 in Turkey's central economic bureaucracy. The research findings draw from elite, in-depth semi-structured interviews.<sup>31</sup> The interviewees' were selected integrating purposive and chain sampling techniques. First, officers occupying positions relevant for the project cycle were contacted. Each of them was then asked to provide further contacts. A snowball selection of potential interviewees was hence nested into the initial purposive sampling. The final sample includes 32 interviewees, of which 18 civil servants from the Ministry of Development, and 14 individuals from other organisations, namely six civil servants from the Ministry of Finance, three key public policy scholars from Bilgi University, Boğazici University, and Koç University, two experts from the Delegation of the EU to Turkey, one retired manager from the Undersecretary of Treasury, one public finance expert and director from Turkey's Economic Policy Research Foundation (*Türkiye Ekonomi Politikaları Araştırma Vakfı*, TEPAV) with previous experience at the Undersecretary of Treasury and the World Bank, and one expert from the Ministry of Transport's General Directorate for Highways (*Karayolları Genel Müdürlüğü*, KGM).

In the selection of interviewees, the Ministry of Development was targeted preferentially because the organisation holds the main responsibilities for the coordination of public investment and regional policies. Since the 1980s, along with significant transformations in its economy (Çokgezen, 2000) and the shift toward an export-oriented growth model (Tokatlı and Eldener, 2002), the country has taken progressive steps towards an incipient decentralisation.<sup>32</sup> In spite of such changes, public investment is still planned, allocated and monitored at the central level by the

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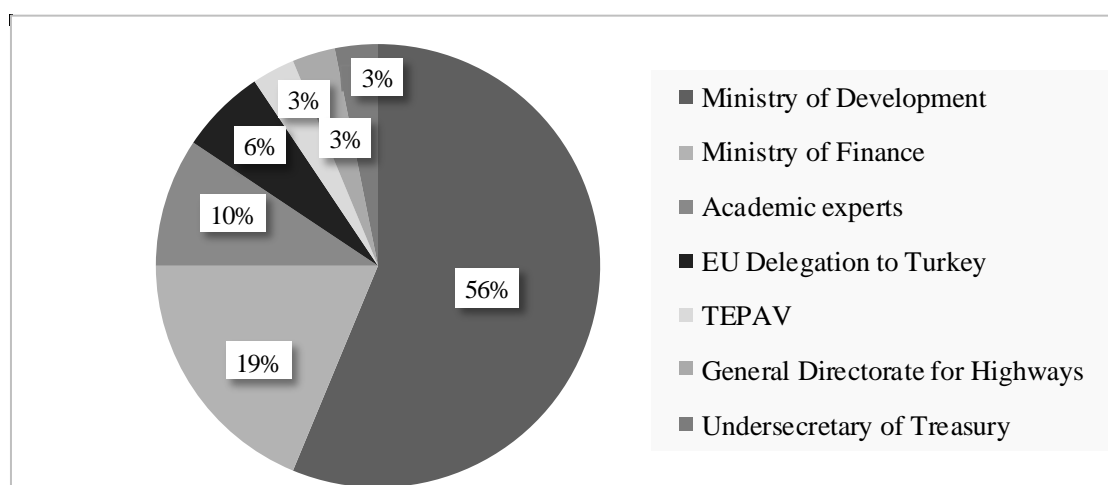
<sup>31</sup> Four of the interviews were conducted during a pilot research phase between October 2012 and September 2013.

<sup>32</sup> The opening of accession negotiations to the EU, in the early 2000s, in particular, coincided with – and partly triggered – a series of reforms in the country's development strategies (Dedeoğlu, 2010; Luca, 2011). Reforms included the creation of development agencies (Lagendijk, Kayasu, and Yaşar, 2009), semi-public entities in charge of regional development initiatives at the NUTS II level, as well as the decentralization of some powers to Provinces, Metropolitan Municipalities and Municipalities (Özcan and Turunç, 2008).

Ministry of Development. Local administrations can invest autonomously from Ankara. Yet, around 90% of their investment is still covered by the central investment budget. While public investment projects are proposed and operationally managed by line Ministries, the definition of annual priorities and guidelines, and the project selection and monitoring are still prerogative of the Ministry of Development. We hence focused our main attention on the latter organization on the ground that it is exactly the place where policies are developed.

The inclusion of interviewees from external organisations was foreseen to customarily cross-validate the correctness of information. The EU Delegation to Turkey, TEPAV, and the key scholars were selected because of their authoritative and independent view on the state bureaucracy. The Ministry of Finance and the Undersecretary of Treasury should be a further source of critical information, particularly considering the traditional power and coordination problems (Nicholson-Crotty, 2005) they experienced with the Ministry of Development.<sup>33</sup> Interviews lasted on average between 60 and 90 minutes, and were carried out in English and Turkish.

**Figure 2.** The composition of the interviewees' sample (percentages, clockwise).



Interview findings were also coupled with secondary document collection, which added considerably to the factual understanding of the public investment

<sup>33</sup> In line with the key role played by the Ministry of Development in the project cycle, Section 5 will mostly present and discuss quotes from the organisation's personnel. The quotes presented are the ones which were confirmed most frequently – directly and indirectly – by the 'interviewees' control group' and by external sources.

management, and served to cross-check the findings from the Ministry of Development. Particular attention was paid to three institutional sources: the annual reports prepared by the European Commission to monitor Turkey's progress towards accession to the EU, the annual Economic Surveys on Turkey prepared by the OECD, and the Five-Year Development Plans and the Annual Investment Programmes prepared by the Ministry of Development.

Two analytical caveats must be taken into account. First, it is important to bear in mind that the analysis does not claim to conclusively map Turkey's public investment policy process. The complete understanding of policymaking would require an extensive exploration of not only the bureaucratic organisation (the agent), but also the politicians (the principal) and the overall public financial framework. Improving state effectiveness indeed requires not only an effective bureaucracy able to design and implement development-friendly policies, but also political willingness as well as fiscal capacity to promote them. Given the very limited amount of research on the topic, such a broad subject would nonetheless be out of the scope of the current research. More modestly, the article's aim is to provide novel empirical evidence on the concrete functioning of the public investment project cycle during the last decade, and then link the observed strengths and weaknesses to the institutional characteristics of the Ministry of Development. Relatedly, the analysis does not explore how governance links between the central state and sub-national levels (potentially) shape the project cycle. Although sub-national tiers of government do not play a major role in Turkey's public investment project cycle, further research in that area could perhaps provide insightful results, particularly considering how the lack of coordination between central and sub-national decision units has been discussed as a problem in the literature (cf. Karadağ, Deliktaş, and Önder, 2004).

A second caveat relates to the interviews. The ability to receive reliable and honest answers may be potentially limited by the author's status as an outsider. This may be particularly relevant in a social context such as Turkey, where interpersonal trust plays a role bigger than formal ties in shaping insider/outsider dynamics. Interviewees were hence accessed after having secured the support of trusted individuals who could 'warrant' the interviewer's trustworthiness. Previous work experience in the country and the use of Turkish in communication further helped

‘breaking into the bureaucratic black box’. Considering both the bureaucratic ranking of some of the interviewees and sensitivity of the questions being asked, interviews were not recorded.<sup>34</sup> Last but not least, interviewees were guaranteed anonymity in order to encourage ‘free speech’. Overall, these precautions increased respondents’ eagerness to talk and discuss personal and institutional conflicts more freely. Interviewees were also asked to provide information on their most-followed media outlets. Such information was then used to ‘control’ for respondents’ heterogeneous political views – which may influence answers about the bureaucracy/politics relationship.

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<sup>34</sup> Such decision was taken after running some pilot interviews, where respondents did not accept to be recorded. Since 2013, and following a massive corruption scandal involving Turkey’s former Prime Minister and other members of the Cabinet, the Government has significantly increased pressure on civil servants and worked to purge thousands of suspected political enemies from the judiciary and the police (Meyersson and Rodrik, 2014). We hence decided not to record any of the final interviewees to avoid potential influences on some of the responses.

## **5. Empirical analysis**

### **The public investment project cycle**

Following the approval of Law 5018/2003, the public investment project cycle is formally based on the three pillars of strategic planning, performance-based budgeting, and monitoring and evaluation of results. The Ministry of Development's key project cycle responsibilities include the preparation of the annual project guidelines, the screening and approval of projects, as well as their overall coordination and monitoring and evaluation. By contrast, the empirical implementation of investment projects is carried out by line Ministries.

The selection of annual projects is based on a three-step process. The Ministry of Development first issues a circular directed to other state agencies and line ministries stating each year's specific objectives. Such circular should mirror the strategic priorities set in the Five-year and Medium-term Plans. The latter, which cover three years and is annually prepared on a rolling basis, was one of the key innovations introduced by the new law. It was foreseen to overcome the traditional lack of coordination between multiannual plans and annual investment decisions. At least in theory, medium-term plans should now guide the selection of investment projects to ensure a more strategic use of public monies. Second, bureaucratic agencies and public institutions submit their programme proposals to the Ministry of Finance and the Ministry of Development, in charge of ensuring that projects comply with fiscal and planning documents respectively. A phase of negotiation then occurs between other line ministries and the Ministry of Development's experts, before the latter agency finalises the investment programme. As the following quotes suggest the procedure is, at least in theory, very technical:

"Experts look at project proposals and negotiate with their counterparts. Then a meeting is organised at the Ministry of Development. It's a technical level meeting, sector by sector. These meetings last from August to September. In the whole Ministry, there may be more than 100 meetings. From line ministries there is staff attending not only from Strategy Departments, but also operational people. The final phase is the approval. Experts at the Ministry of Development

put forward the proposals which they believe need approval. [...] Such list of proposals then goes to the Director General. Only big issues are brought to upper levels e.g. controversial projects.”<sup>35</sup>

“Of course politicians propose projects, but we can try to convince them that hospitals are not needed where there are already four. We are strongly working at reducing inequalities in hospital provision across Turkey. Of course there are demands for useless hospitals, but we can frequently manage to reject unnecessary projects. E.g. two years ago we came together with the Ministry of Health. We defined priorities areas, allocating each of the 29 health regions of Turkey to one of four ‘urgency groups’. Frequently our Minister and our General Managers have backed up our positions.”<sup>36</sup>

Programmes are subsequently approved by the High Planning Council (*Yüksek Pılanlama Kuruluşu*, HPC hereafter). The annual investments’ draft programme eventually needs to be ratified by the Parliament. The investment project cycle is developed in a way to limit the direct influence of legislators (Wehner, 2010). As a matter of fact, Members of Parliament are unable to see the projects’ detailed figures. In other words, before the final publication of annual investment programmes, parliamentarians can only express their views on the budget (and the related investment programme) as a whole since the detailed project allocation is not disclosed. Because of such mechanism, changes introduced by the Parliament have often been minor (Özdemir-Tsarouhas, 2013), hence limiting the influence of individual legislators in seeking pork-barrelling allocations. The system is based on the idea that legislators can monitor the bureaucracy’s past performance (i.e. assessing previous years’ plans), and yet are prevented from influencing forthcoming programmes.

Overall, the new system has modernised the investment cycle in line with international standards (OECD, 2004b). Nevertheless, empirical evidence also suggests that the project cycle continues – at least in part – to be marred by two main types of flaws.

First, the system has traditionally suffered from inadequate targeting and a lack of focus on the most relevant priorities. In spite of the reforms, the link between annual

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<sup>35</sup> Interview number 21.

<sup>36</sup> Interview number 26.

investment programmes and multiannual plans continues to be weak. As a matter of fact, after just a few years since their first appearance in 2006, Medium-term Programmes have started to be published weeks after projects had already been proposed by public agencies and selected by the Ministry of Development. The consequence is that strategic planning continues to be inadequate, with projects still being proposed and discussed without clear overall strategies. The following excerpt from a former top-manager from the Treasury explains this issue:

“A problem is that there are too many plans/documents. There are the Five Year Development Plans, the Medium Term Programmes, the Annual Programmes and Investment Programmes, and each Ministry has its own plan. All these documents were created to ensure a good coordination and good strategic planning, but they are too many now and are not respected.”<sup>37</sup>

Second, weak monitoring and ex-ante feasibility controls leads to inefficient projects. As the Eight Development Plan suggested, “even completed promptly, they [projects, A./N.] may not yield the anticipated benefits due to the insufficiencies in feasibility projects. [...] Insufficiencies in monitoring as well as evaluation both restrain timely determination and elimination of breakdowns and curtail coordination among projects” (State Planning Organisation, 2001, p. 226/227). This flaw is caused both by the insufficient procedures to carry out effective ex-ante controls by the Ministry of Development, and by the poor quality of feasibility studies submitted by public institutions to the Ministry. The following quote by a senior manager with more than two decades of experience in the organisation explains the second problem:

“According to the Law 5018, you have to have a feasibility study analysing technical and financial feasibility, social impacts, etc. What is concretely the quality of those studies is another thing. I can show you one. This, I can read it in 15 minutes, and it does not say anything. Yet, if you tell the Ministry of Transport that a study is wrong, they have always answers [to put the project forward].”<sup>38</sup>

The weaknesses in the availability of effective mechanisms to ex-ante evaluate projects at the selection phase is mirrored by an almost complete lack of on-going and ex-post monitoring and evaluation of approved projects. Numerous interviewees

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<sup>37</sup> Interview number 1.

<sup>38</sup> Interview number 17.

acknowledged such shortcomings as significant constraints on the agency's performance. Indeed, a Ministry of Development manager with 15 years of experience explains:

"I think this is the weakest part of our project cycle. Sometimes we ask for realisations, we also carry out some site visits. We do some monitoring but we are not good in evaluation. There is no formal evaluation. If we did, it would have a big influence on project effectiveness. So now we continue making the same mistakes."<sup>39</sup>

To conclude, the analysis provides an overall picture of the investment project cycle in line with Luca and Rodríguez-Pose's (2015) relatively positive findings. The good governance reforms implemented in the early 2000s appear as a first explanatory variable behind the limited amount of distributive politics uncovered by the two authors. Such reforms have strengthened both the country's fiscal situation and the investment project cycle. At the same time, the latter still shows important flaws. The following two sections will discuss how the levels of policy effectiveness observed can be explained by the role and characteristics of the Ministry of Development.

### **Bureaucratic capacity, autonomy, and policy effectiveness**

Unlike other developing countries in Asia, Africa, and Latin America which achieved independence from colonial rule with relatively low state capacity, coming into existence in 1923 the Republic of Turkey inherited a strong state tradition from the Ottoman Empire (Heper, 1985). At the same time, the weak independence of state institutions from the ruling elite has been one enduring characteristic of the Turkish state. Within this tradition, the SPO was statutorily designed by the military rulers as an organisation comparatively stronger and better insulated than most other Turkish public agencies. A senior manager with almost three decades of experience in the agency explains:

"Our position was unique within the public administration. Why? It was considered that the institution had to think freely and had to find solutions for the future of the country. So they don't

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<sup>39</sup> Interview number 21.



have to be directed by plagiarized people [people not independent from special and short-term interest groups, A./N.].”<sup>40</sup>

As Özbudun and Ulusan (1980) stress, the military junta was rather sympathetic to the concept of planning and the idea of an independent organism aimed not merely at the physical growth of the nation, but also at a peaceful transformation of the existing systems. Since the 1980s, along with the shift from an import-substitution to an export-oriented model of growth and the progressive trend of decentralization occurred in Turkey (Özcan and Turunç, 2008), the overall state’s active role in development started declining. Yet, the SPO overall managed to maintain its elitist character and, with it, levels of technical capacity comparatively higher than many other state institutions. The public employees’ insufficient skills level has traditionally been a problem for the effective provision of public services in Turkey (State Planning Organisation, 2006). The peculiar place occupied by the Ministry of Development within the broad public sector can be hence grasped comparing the organisation’s human resources with other public agencies.

**Table 1.** Distribution of personnel across different Ministries according to educational status in 2014 (percentage).

Institution	Educational attainments					
	Elementary school	Secondary school	Associate degree	Undergrad. degree	Graduate degree	PhD
Ministry of Development	1.5	6.5	8.8	51.5	28.5	3.2
Treasury	1.7	11.6	8.3	53.7	22.7	2.2
Ministry of Economy	3.0	12.0	8.0	56.0	21*	
Ministry of Finance	3.5	14.5	10.7	68.1	3.1	0.1
Ministry of Labour and Social Security	2.4	10.6	8.1	73.4	5.7	0.8

\*data include both Graduate and higher qualifications. Source: Ministry of Development, Ministry of Finance, Treasury, Ministry of Labour and Social Security.

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<sup>40</sup> Interview number 2.

Table 1 compares the educational attainments of civil servants in the Ministry of Development to four other state organisations. If compared to the 1980s and 1990s (Biddle and Milor, 1995), the gap in educational attainments between the Ministry of Development and rest of the economic bureaucracy has currently decreased. Nevertheless, the table still shows noteworthy differences. The Ministry of Development fares in particular better than its counterparts in the highest levels of educational attainments, with almost 32% of its staff possessing a graduate degree or a higher diploma, as opposed to less than 25% in the Treasury, 21% in the Ministry of Economy, and only 6.5% in the Ministry of Labour and Social Security, and 3.2% in the Ministry of Finance.

Interestingly, the Ministry of Development has also traditionally given emphasis to the ‘socialization’ of new recruits to its ‘institutional norms’ by pairing junior experts to senior staff for long periods, as well as by supporting logistically and financially members of staff in the achievement of graduate degrees in top foreign universities (frequently in the US). The following excerpt by one head of department with more than 20 years of service confirms how ‘socialisation’ into the organisational structure is considered as a key characteristic of the Ministry:

“I think that highly trained personnel are more prone to resist against political pressure from above. [...] I think that compared to the initial selection, more important is the training of personnel. Here new people are well trained. Each new assistant expert is assigned to an expert. In other ministries, there may be 10 new people for each expert. So they don’t learn the institutional culture.”<sup>41</sup>

Traditionally, the Ministry has also benefitted from a relatively objective and meritocratic system of recruitment, which guaranteed the selection of competent applicants, as well as from salaries significantly higher than other line institutions. As will be discussed later, the organisation has not been immune from nepotism and the preferential hiring of candidates based on political views, particularly since the 1980s. At the same time, however, most interviewees agreed on how the agency has managed not to fully undermine the quality of new recruits. The following quote by a

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<sup>41</sup> Interview number 16.

senior planning expert with more than 10 years of experience in the Ministry provides an example:

“For promotions in top management of course there is political interference. [As for lower positions], if there are two applicants for a position, they may prefer the [politically] closest one. But if there is just one applicant, they generally will give the job to him.”<sup>42</sup>

When asked why the formal recruitment system has allowed keep nepotism (*torpillik*) relatively at bay in the Ministry, one head of department with more than 10 years of experience answered:

“The [entry] examination is done by people from here. We work on candidates, and then give a list and the Minister selects among our list. [...] Of course pressure on this kind of thing is always there. But [...] we are the ones frying in the pan eventually. I will be the one to work until 9 in the evening. So it is in our interest to hire the best people.”<sup>43</sup>

The quote confirms the importance of ‘internal control’ as a mechanism for the reproduction of ‘institutional quality’, in line with Rauch (1995)’s theoretical framework. Marrying the Weberian state hypothesis to a principal-agent model, he argues that, in a bureaucracy overall effective in fulfilling its mission, each manager will have incentives to act as a principal and select and supervise his/her staff (i.e. agents) to ensure that they carry out their tasks. Relatedly, the literature suggests how two other mechanisms are important for ensuring an agency effective working. The first one concerns whether career advancements are based on merit, rather than on other non-performance related factors. The second mechanism refers to the emphasis given to internal advancement over the selection of external candidates. While it could be argued that the selection of external candidates may potentially bring new talents into the organisation – and hence acts as an efficiency-enhancer mechanism –, Evans (1995) and Rauch (1995) extensively argue how, in settings where political pressure on appointments is high, civil service protection mechanisms are more likely to be efficiency-enhancing. The following quote by a young head of department with 10 years of experience at the organization supports their hypothesis:

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<sup>42</sup> Interview number 7.

<sup>43</sup> Interview number 20.

“The Ministry of Development is not the Ministry of Agriculture, or the one of Interior. The latter is the most political place on earth. There if you do something the top people don’t like, you are hanged. We are not a Weberian bureaucracy either. Yet, what we have is we still get promoted from within. [...] Appointments are most of the time objective up to the level of Director General. Then they have to be supporters of the party. But even then they must have some capacity. In a normal Ministry, if you want to get appointed you go to the Minister, or to MPs. [...] The culture here normally doesn’t work like that.”<sup>44</sup>

Indeed, out of the current 15 top managers of the Ministry (Minister, Vice-Minister, Undersecretaries and General Directors), only two do not have spent their entire professional life within the organisation before being appointed to their current position.

Overall, the evidence seems to suggest that the existence of a capable institution with purposive authority in charge of investment management has positively contributed to ensuring that investment decisions remain focused on publicly-oriented goals. At the same time, and in spite of institutional characteristics comparatively stronger than the rest of Turkey’s bureaucracy, the analysis also suggests that concrete mechanisms through which the Ministry of Development operates have not been immune from flaws. The remainder of this section will explore how the organisation has in particular suffered from insufficient autonomy from the executive in carrying out its activities.

Since the bureaucratic elite played a key role in the modernization of the country, by its own virtue high-level bureaucrats traditionally formed a distinct group united by a sense of shared identity (Biddle and Milor, 1995) and frequently perceived themselves as the main formulator of the Turkish state’s long-term interests (Heper, 1985). At the same time, however, such powers and elitist attitude spread the seeds for their own demise, bringing the top bureaucracy into a long-term conflict with the political elite. During the 1980s, in particular, non-legal political pressure on personnel started to creep into the SPO via the recruitment of new staff through a separate process to bypass the formal examination. A senior finance expert from

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<sup>44</sup> Interview number 6.

TEPAV with former experience at the Undersecretary of Treasury and the World Bank points out:

“In Turkey, this has always been a problem, especially in the 1980s and 1990s. So bureaucracy tried to safeguard itself [by trying to retain as much as independence as possible]. The Undersecretary of Treasury is an example.”<sup>45</sup>

Similarly to many other countries (cf. for example the Italian case described by Golden, 2003), Turkish politicians have indeed frequently used the expansion of the state as an opportunity to engage with patronage recruitment. Aside from its budgetary effects, the expansion of personnel has had implications on the organisation’s implementation capacity (World Bank, 1997). Numerous interviewees stressed such problem, arguing that the excessive increase in the number of new personnel hired has – particularly in recent years – jeopardized the agency’s capacity of ‘socialising’ new recruits. As a head of department with almost 30 years of service explains:

“In the past our salary regime was higher than other institutions. So we were selected as the cream of the available personnel. [...] There are still residuals of that culture. But in the last 10 years we hired too many people, so it is difficult to transmit these values to new people. [...] Why were people hired? That is political!”<sup>46</sup>

Besides, while there are mechanisms to ensure a relative insulation from the legislative, the organisation is not independent from the Government. This should be no surprise considering that the SPO was statutorily designed as an advisory organisation attached to the Prime Ministry. Institutional changes in the project cycle have nonetheless altered, throughout the decades, the scope of the bureaucrats’ ability to make their voice heard by the Cabinet. As many interviewees suggest, a main locus where technical decisions are overruled is the High Planning Council. While initially composed of the Prime Minister, 4 Ministers, and 4 top managers from the SPO, following the Decree Law no. 223/1984 and Law no. 304/1987 bureaucrats have been removed from the Council. Since then, the Government has had full power to modify investment plans prepared by the bureaucracy. The Eight Development Plan indeed

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<sup>45</sup> Interview number 4.

<sup>46</sup> Interview number 2.

points out to this phenomenon as one of the structural problems of the public investment management, stating how “additional allocation practices within the program year mar program discipline and sectorial balances” (State Planning Organisation, 2001, p. 227). The following excerpt provides a concrete example:

“As experts, our basic document in the selection of projects is the annual development programme. [...] If you read page 236 of the 2014 programme, you understand that we should not invest at all in motorways but invest in other means of transport. But in the last years there have been 70 trillion TL investments in motorways. We allocate 4 trillion at the beginning of the year, and at the end they have become 9. [So how does it happen?] At the High Planning Council. If a project is above 100 million TL we send the project to it. We send reports saying that projects are good/bad, giving technical opinions. [...] Yet, so far, I cannot remember even one case when they rejected a project after our evaluation. At the end, unless you get politicians away from populist approaches, all the ideas about effective planning rest on paper.”<sup>47</sup>

The main channel of ‘control’ of the principal (the political agents) over the agent (the bureaucrats)’s policy decisions is hence not the Parliament and its sectorial committees (cf. Weingast and Moran, 1983) but, rather, the Prime Minister and the Cabinet (cf. Moe and Wilson, 1994). The top bureaucrats’ stronger role into the HPC was initially foreseen by the Military interim government which established the SPO in the 1960s. According to the literature on democratic accountability discussed earlier on, the substitution of top-bureaucrats with elected Ministers may mark a positive transition towards a more accountable and democratic system. At the same time, however, in a setting where politicians have frequently embraced inefficient and unsustainable policies purely aimed at garnering votes, the changing balance of power between bureaucrats and politicians within the Council has had implications for the sound management of public funds.

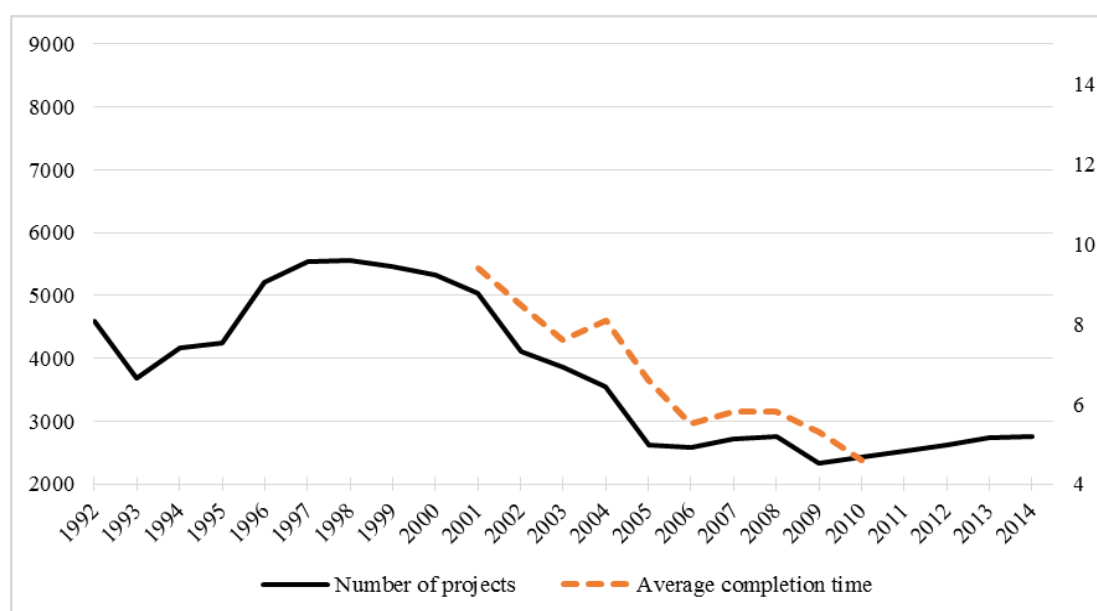
Indeed, over the years a number of economically dubious investment projects have been burdening the public investment portfolio. As Gönenç, Leibfritz, and Yilmaz (2005) suggest these projects were often launched in response to central and local political pressures. Examples include the launching of irrigation projects with particularly long completion, and the construction of transport infrastructures with

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<sup>47</sup> Interview number 25.

limited use. This drifts worsened in periods such as the 1990s, when the political system was more unstable and political leaders engaged more deeply in short-term electorally-motivated allocations. Figure 3 confirms such trend. It shows the average number of projects included each year in the annual investment programme between 1992 and 2014, as well as the average completion time of projects (for the years available). The number of projects included into each year's programme peaked in the mid-1990s, to start decreasing only in the early 2000s.

**Figure 3.** Number of total investment projects included in each annual programme (left axis), and average completion rate of projects (right axis) (1992-2014).



Source: own elaboration on data from Turkey's Ministry of Development.

Following the late 1990s and early 2000s political and economic crisis, the State Planning Organisation was assigned in 2001 the task to identify the least efficient projects and prepare an investment rationalisation programme. Such programme proposed to freeze those projects with the lowest prospects of completion, and concentrate the limited resources on priority areas. Under the loom of new crises, and willing to comply with the EU accession negotiations, the government followed these recommendations (OECD, 2004). Evidence hence suggests that Luca and Rodríguez-Pose (2015)'s positive results for the period 2005-2012 are driven by the Ministry of Development's capacity, but also contingent on Erdoğan and his government's willingness to implement and follow the post-2001 'good governance' reforms

developed by the bureaucracy in concert with the World Bank, the IMF, and the EU. The following quote by one of the bureaucrats involved in the rationalisation of the project cycle supports this claim:

“Fiscal control gave us opportunities during the management of this government. [...] Of course [in the past the system] was not working because of political interferences. Actually I think [the system] worked in the 1960s, in the 1970s, and in a way still the 1980s because of the preferences of Özal’s government. But in the 1980s it started to decline and of course went down in the 1990s. There was a chance in the 2000s. Actually it was going pretty well until 2008...”<sup>48</sup>

Pressure to pass investment projects primarily motivated to garner votes derives not only from external actors, but also from part of the top-management within the organisation. The fact that politicians increasingly managed to influence bureaucratic recruitment and promotion patterns in turn increased the sensitivity of top bureaucrats to signals emanating from the political class (Biddle and Milor, 1997). The following quote by a young planning expert explains this phenomenon:

“We are different than other ministries, but it happens that we feel the pressure, that we are said ‘this is a key project, if we don’t accept it that will be an issue’. If we write very negative and strong assessment reports we would put politicians in a difficult corner, so this leads us to write reports in a more nuanced and softer way. [Who tell you?] It’s top managers. They may tell that ‘this is a key project. I know it’s not economically feasible but it’s “socially” viable.’ [...] There is closeness (*samimiyet*) between top bureaucrats at the SPO and people in the political sphere.”<sup>49</sup>

Along with the strong power of the Government to influence investment decisions irrespective of the technical project cycle, a final factor undermining the technical management relates to inadequate staffing within the Ministry of Development. Pointing to the road network projects within the transport sector, which for example in 2013 accounted for more than three billion Turkish Lira worth of projects, one junior manager explains:

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<sup>48</sup> Interview number 2.

<sup>49</sup> Interview number 25.



“Formally there is no space for political pressure. The procedure is formally very technical. Do you ask me if it concretely works? Check how many people work on each sector: on road projects there are only three people working. This implicitly politicizes the process.”<sup>50</sup>

To conclude, the analysis suggests that although still in a better position than other institutions, the Ministry has not been immune from flaws, particularly related to insufficient autonomy vis-à-vis the government. Overall, results confirm Biddle and Milor (1995), who argued that it is less the absence of bureaucratic capacity than the lack of bureaucratic insulation to undermine Turkey’s development policies effectiveness.

### **Bureaucratic accountability and policy effectiveness**

The final research hypothesis suggests that while bureaucratic autonomy may reduce politicians’ attempts to drive the policy process towards inefficient, clientelistic and populist outcomes, effective devices to monitor bureaucrats’ actions are nonetheless expected to be an important component to reduce moral hazard among civil servants (Page, 2010). Interestingly, empirical results suggest that the very limited existence of mechanisms to ensure accountability – another significant flaw in Turkey’s investment project cycle – is determined not only by factors external to the Ministry of Development but also by resistance to change originating within the organisation.

In spite of the legal novelties introduced by the Law 5018/2003, only an extremely limited amount of personnel is currently in charge of monitoring and evaluation tasks. One of the interviewees from the Ministry of Development in particular suggests how, concretely, probably only 5 members of staff (i.e. around 0.06% of the organisation’s total employees) are concretely devoted to the real monitoring and evaluation of projects.<sup>51</sup> As a former top manager from the Treasury explains:

“The founding of the SPO was done to streamline investments and check efficiency. Yet, monitoring and evaluation had always largely ignored. In the 1980s and 1990s, in particular, project efficiency was low. [...] The 2003 laws on public expenditure were an effort to rationalize

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<sup>50</sup> Interview number 23.

<sup>51</sup> Interview number 7.

public spending. Yet, nobody knows exactly the outcomes of projects. Bureaucratic offices (e.g. units, directorates) publish activity reports, but these don't link to performance indicators.”<sup>52</sup>

Trying to explain the reason why the organisation never gave significant priority to monitoring and evaluation, in spite of the awareness of its utility to increase effectiveness, Biddle and Milor (1995) reported the opinion of a staff member that collecting data on performance would be like ‘playing Russian roulette’. Most interviewees provided similar arguments. Interestingly, one senior manager suggests how the top management’s focus on the monitoring of performance has decreased along the years, rather than increasing:

“The first big change in the SPO was done in 1994. At that time the Coordination Department was closed. [...] Our main rule in that department was to follow-up the implementation, make necessary revisions and coordination, and monitor the realization and make necessary reporting. [...] We were monitoring all projects’ realisations; we were issuing public investment expenditure reports each quarter. Now we don’t do that! At that time we were. [...] By closing that department, those functions were cancelled.”<sup>53</sup>

Similarly, numerous experts acknowledged that monitoring and evaluation has never become a priority for the top management. The same senior manager provides a concrete example:

“We started a new project. It was initially accepted by the top management, it was about ex-post evaluation of selected projects. But later the top management said that it was not our priority at the moment.”<sup>54</sup>

Overall, both the interviews’ findings and the policy documents (in particular the Eight Development Plan) suggest that monitoring and evaluation procedures have been applied unsystematically and lack overall coherence. The analysis also points out how the substantial lack of mechanisms aimed at ensuring both internal and external accountability has constrained the bureaucracy’s commitment to achieve better performance. One of the few staff members working on intermediate and ex-post monitoring of projects recounts:

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<sup>52</sup> Interview number 1.

<sup>53</sup> Interview number 2.

<sup>54</sup> Interview number 2.

“All the people in our department are trying to do their best with all their efforts. But there is no standard. There are no shared rules on how to deal with numbers. The SPO historically did not have capacity [on this area]. But there has been no interest too. [...] Those who are brave, they get discouraged. We don’t take the initiative, we are discouraged. [For example] we conducted a monitoring and evaluation project with the World Bank in 2007-8. It was aimed at introducing monitoring and evaluation in annual programmes. There was commitment with the World Bank. Our top level signed a commitment with them. We wanted people from sectorial departments. But sectorial managers did not even attend our meetings regularly because they were too busy.”<sup>55</sup>

The flaws in the mechanisms aimed at ensuring the agency’s external accountability are even more striking. In annual investment programmes, projects are recorded with no common classification criteria, so any external in-depth analysis on single investments projects is very difficult. Besides, project codes between the national budget prepared by the Ministry of Finance and the investment programme prepared by the Ministry of Development don’t coincide (Yavuz, 2014). As the latter author suggests, this is not a casual flaw, but rather a planned expedient to avoid the Parliament and the Court of Accounts’ auditing controls. In other words, the bureaucratic and political elites have effectively colluded. Interestingly, such collusion between top bureaucrats and the government resembles recent evidence put forward by Page (2010). Exploring which mechanisms for securing public accountability do bureaucrats pay particular attention to when developing public policies, he concludes that bureaucrats take significant efforts to make sure their political leaders approve their actions. In other words, in contrast to conventional rational choice and principal-agent frameworks, which stress the potential for conflict between bureaucrats and politicians, his findings suggest that the incentives for bureaucrats can work entirely in the same direction as the ones for politicians. Indeed, as one of the interviewees from the Ministry of Development recollects:

“From a political point of view, this was done to avoid the audit function of the parliament. Both the audit system used in Turkey and the control of the Court of Accounts (*Sayıştay*) work on the budget, not on the investment programmes. So the system was created to avoid control. And from a bureaucratic point of view, the lack of standards was beneficial to give more comfort to the top managers. So there was connivance between the top bureaucrats and politicians.”<sup>56</sup>

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<sup>55</sup> Interview number 3.

<sup>56</sup> Interview number 23.

While further research on this area is needed, it is possible to speculate that one of the reasons why the parliament never pushed for reforms aimed at correcting this flaw might be related to the functioning of political parties. Similarly to the case of Mexico explored by Langston (2001), in Turkey party leaders have traditionally had strong influence over party members. Following the new constitution approved after the 1980s military coup, parties' candidate lists are compiled by leaders, while a national electoral threshold of 10% prevents dissidents from separating from their party to form a new one. The strong-executive/weak-parliament has therefore been a peculiar characteristic of Turkey's political system (Öniş and Webb, 1992). The system induced strong discipline from party members, who had an incentive to align with the party leadership, and then reduced dissent among legislators against the actions taken by the Government, and the Prime Minister in particular.

## 6. Conclusion

Drawing on elite, semi-structured interviews among Turkey's economic bureaucracy, as well as on the analysis of national and international policy documents, the research has aimed to answer the following related questions: (1) is Turkey's public investment project cycle currently managed effectively, as recent research by Luca and Rodríguez-Pose (2015) on the territorial distribution of investment would imply? (2) What is the role played by the Ministry of Development – the organisation in charge of planning and directing the project cycle, formerly State Planning Organisation – in ensuring that investment decisions remain focused on publicly-oriented goals, as opposed to purely becoming a tool for particularistic redistribution and electoral rewarding? These research questions are motivated by the literature which, after almost a century since Max Weber's (1921) seminal work on bureaucracies, still discusses how, and when, public sector organisations can contribute to effectively providing the critical public goods necessary for development. On the one hand, the literature on the developmental state (Amsden, 1989; Evans, 1995; Evans et al., 2014; Rauch and Evans, 1999; Wade, 1990) has suggested how capable and insulated bureaucracies are important effectiveness enhancers, particularly in contexts where the political class is oriented to short-term, populist decision making and clientelistic redistributive goals. On the other hand, however, the public choice literature (Huber et al., 2001; Niskanen, 2001) has stressed the inherently self-interested nature of bureaucratic agents, and hence pointed to mechanisms aimed at ensuring oversight over bureaucrats as an important factor to avoid the latter's potential predatory and rent-seeking behaviours.

In line with the developmental state literature, results suggest that the Ministry of Development's nature, comparatively more capable and authoritative than many other Turkish public organisations, has positively contributed to the sound, technical management of public investment. Results also show how the organisation and the project cycle are relatively well insulated from individual legislators, but not autonomous vis-à-vis the government, and hence the effective management of funds is strongly dependent on the political elite's 'will to deliver'. Luca and Rodríguez-Pose's (2015) results on the limited scope of pork-barrelling allocations in

contemporary Turkey might hence be contingent to the stable political environment of the 2000s and the fiscal reforms implemented following the 2001 economic crisis. In comparison, in periods such the 1990s, when the political system was ‘in a state of flux’ (Sayarı, 2002), the bureaucracy was unable to shield from executives’ pressure and deliver. At the same time, however, in line with the democratic accountability literature, the analysis also uncovers significant resistance from the bureaucracy against the implementation of reforms which would increase the organisation’s efficiency and transparency.

The analysis’ implications for theory and policy are threefold. First, it contributes to the literature on distributive politics (cf. Golden and Min, 2013) by providing novel insights on how tactical redistribution dynamics in contemporary Turkey occur. Empirical evidence indicates that distributive politics allocations are, in the Turkish case, mostly determined by the Prime Minister and the executive, rather than the legislative. As most interviewees point out, the main locus where technical decisions are overruled is the High Planning Council, a body composed of the Prime Minister and eight other members of the Cabinet. Interestingly, in line with Page (2010) the analysis also uncovers the over-sensitivity of part of the top bureaucrats to signals emanating from the political class. It is hence not only members of the executive, but also top-bureaucrats to drive investment decisions towards electoral rewarding. In other words, in contrast to conventional rational choice and principal-agent frameworks which stress the potential for conflict between bureaucrats and politicians, our findings seem to suggest that the incentives for bureaucrats can sometimes work in the same direction as the ones for politicians.

Second, results contribute to the debate on how effective public organisations should be designed and managed. Findings suggest that effective bureaucracies need to strike a balance between the two opposing dimensions of bureaucratic autonomy and accountability. As Azulai et al. (2014, p. 8) argue, good institutions “need to solve the conflict of interest between bureaucrats and politicians on one side and citizens on the other by providing mechanisms for political accountability, guaranteeing that society’s interests prevail over bureaucrats’ and politicians’ interests”. If the balance between these two dimensions is tipped too far in favour of either of them, bureaucracies will face the risk of either becoming too powerful and seek rents (as

seminally foreseen by Niskanen, 1971), or to become too weak to oppose the use of public goods by politicians (Steelman, 2001) for purely-strategic goals. Results also suggest how one of the real challenges of (regional) development policies is not only to figure out technical solutions but also to sort out the political process so that incentives to achieve effectiveness arise among politicians *and* bureaucrats. Such goals can be achieved by reforms aimed at de-politicising the civil service, separating the political sphere from the administrative tasks, and instil new management practices within the public administration (Milio, 2010). Such recommendations can also partly apply to local and regional development analyses, where there is a lively debate on how to reform inefficient institutional settings at the subnational level (cf. Milio, 2007; Rodríguez-Pose, 2013).

Last but not least, while most countries around the world have progressively moved towards an incipient decentralization (Rodríguez-Pose and Gill, 2003), results from contemporary Turkey confirm earlier research (Özcan, 2000, 2006) on the risks of horizontal and vertical decentralization measures carried out in absence of a strong and competent state administration. This is not to argue against decentralization. Many researchers, both in Turkey and elsewhere, have indeed shown the risks linked to overly relying on the central state and the lack of grass-root local participation in local and regional development programmes (Boulding and Wampler, 2010; Heper, 1992; Jaramillo and Wright, 2015), or the risks of wrong policy choices caused by a central planner lacking information about local needs (Bayraktar, 2007; Dulupçu, 2005; Eder and Çarkoğlu, 2005; Eraydın, Köroğlu, Öztürk, and Yaşar, 2008). The analysis hence does not argue the case for a traditional ‘top-down’ developmental state. Yet, results are a reminder of how a capable, shielded from political power, and accountable bureaucracy is a prerequisite to limit the problems which frequently cause ‘democratic failures’ (Besley, 2006) around the world. As suggested by Heper (1992) long ago, Turkey needs reforms aimed at increasing democratic participation in the policy process and taxpayers’ monitoring over public spending. Reforms which reduce the powers of the old top bureaucracy from institutions such as the (former) State Planning Organisation, to increase the control by the ruling government will not otherwise lead to stronger institutions, but simply produce different – and in some ways more pernicious (Meyersson and Rodrik, 2014) – ineffective and unsustainable structures.

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## **Appendix. List of interviewees**

- (1) Retired manager, Undersecretary of Treasury, Ankara, 24/10/2014.
- (2) Senior manager, Ministry of Development, Ankara, 2/10/2014.
- (3) Senior planning expert, Ministry of Development, Ankara, 3/10/2014.
- (4) Director, Turkey's Economic Policy Research Foundation (Türkiye Ekonomi Politikaları Araştırma Vakfı, TEPAV), Ankara, 27/10/2014.
- (5) Senior planning expert, Ministry of Development, Ankara, 27/10/2014.
- (6) Manager, Ministry of Development, Ankara, 28/10/2014.
- (7) Senior planning expert, Ministry of Development, Ankara, 30/10/2014.
- (8) Finance expert, Ministry of Finance, Ankara, 19/11/2014.
- (9) Finance expert, Ministry of Finance, Ankara, 19/11/2014.
- (10) Manager, Ministry of Finance, Ankara, 21/11/2014.
- (11) Finance expert, Ministry of Finance, Ankara, 2/12/2014.
- (12) Manager, Ministry of Development, Ankara, 1/12/2014.
- (13) Manager, Ministry of Development, Ankara, 2/12/2014.
- (14) Finance expert, Ministry of Finance, Ankara, 3/12/2014.
- (15) Finance expert, Ministry of Finance, Ankara, 3/12/2014.
- (16) Manager, Ministry of Development, Ankara, 3/12/2014.
- (17) Senior manager, Ministry of Development, Ankara, 4/12/2014.
- (18) Manager, Ministry of Development, Ankara, 5/12/2014.
- (19) Planning expert, Ministry of Development, Ankara, 5/12/2014.
- (20) Manager, Ministry of Development, Ankara, 8/12/2014.
- (21) Manager, Ministry of Development, Ankara, 10/12/2014.
- (22) Planning expert, Ministry of Development, Ankara, 11/12/2014.
- (23) Manager, Ministry of Development, Ankara, 11/12/2014.
- (24) Planning expert, Ministry of Development, Ankara, 15/12/2014.
- (25) Planning expert, Ministry of Development, Ankara, 15/12/2014.
- (26) Manager, Ministry of Development, Ankara, 16/12/2014.
- (27) Manager, Ministry of Transport's General Directorate for Highways (Karayolları Genel Müdürlüğü, KGM, Ankara, 22/12/2014.
- (28) Senior scholar, Bilgi University, Istanbul, 2/10/2012.
- (29) Senior scholar, Koç University, Istanbul, 19/04/2013.
- (30) Senior scholar, Boğazici University, Istanbul, 13/10/2014.
- (31) Manager, Delegation of the EU to Turkey, Ankara, 23/09/2013.
- (32) Senior manager, Delegation of the EU to Turkey, Ankara, 23/09/2013.

## **Paper 4**

**Does electoral hegemony increase pork-barrelling? Evidence from Turkey's public transport investment**

# **Does electoral hegemony increase pork-barrelling? Evidence from Turkey's public transport investment**

Davide Luca

## **Abstract**

After its initial unexpected electoral victory in 2002, the Justice and Development Party (AKP), led by former Prime Minister and current President of the Republic Erdoğan, has constantly increased its hegemonic power over Turkey's state, politics, and society, turning progressively more authoritarian. While commenters have already assessed the social and political consequences of Erdoğan's increasing authoritarianism, little research has been conducted to assess the transformations occurred during the period in the management of public resources. The paper draws from the analysis of public transport investment between 2004 and 2012. Filling a gap in the literature on distributive politics, it explores whether, and why, the use of public goods to strategically punish/reward provinces for electoral reasons has changed along with the upsurge of authoritarian power by Erdoğan and his party. The empirical analysis provides evidence of how the government's political hegemony is unexpectedly correlated to a reduction in the use of public investment for territorial pork-barrelling. Such reduction was nonetheless driven only partly by a virtuous increase in policy effectiveness. Political influence over investment decisions seems to have comparatively shifted from pork-barrelling to the selection of projects driven by populist rationales and whose logics run above partisan politics.

*Key words:* Public investment; authoritarianism; pork-barrel politics; regional policy; state effectiveness; Turkey.

*JEL codes:* H11; H41; O18; O21; O53.



## 1. Introduction

After its unexpected electoral victory in 2002, the Justice and Development Party (*Adalet ve Kalkınma Partisi*, AKP) has constantly retained its electoral hegemony and increased its powers over Turkey's state, politics, and society. Following the party's first years in office, during which the country underwent significant democratisation reforms, the Turkish political and institutional environment has started to backlash. Particularly after 2008 the government, led by former Prime Minister and current President of the Republic R.T. Erdoğan, started to change direction in policy, and progressively moved towards a more authoritarian style. As a result, commentators have recently argued that Turkey increasingly resembles a 'quasi-electoral authoritarian' regime (cf. Arbatlı, 2014). While a conspicuous amount of studies has explored the societal and political consequences of the country's increasingly authoritarian stance (inter alia: Acemoğlu, 2014; Arbatlı, 2014; Meyersson and Rodrik, 2014; Müftüler-Baç, Keyman, 2012), little research has been conducted to assess the transformations occurred in the management of Turkey's public resources. The paper draws from the analysis of public transport investment between 2004 and 2012, and aims to answer the following interrelated questions: (1) is the constant upsurge of power by Erdoğan and his party correlated to a change in the way public investment is allocated to provinces for tactical redistribution? (2) If yes, what potential dynamics may explain such result?

The research goal is informed by the literature on distributive politics – that is, on how self-interested politicians may distribute public spending to specific cities and regions to gain electoral advantage. In spite of a significant increase in the number of studies conducted on this topic (cf. Golden and Min, 2013), the literature still provides unclear expectations on whether shifts from highly competitive electoral environments towards one-party electoral hegemony may lead to higher – or lower – levels of pork-barrelling. On the one hand, the literature on public good provision under dictatorship and democracy (Deacon, 2009; Kroth, Larcinese, and Wehner, 2015; Lake and Baum, 2001) suggests that nondemocratic rule is often accompanied by lower public good provision and quality. The reason behind such intuition is that when many supporters demand rewards for their votes, the costs of personal or

narrowly-targeted benefits which are required to retain their loyalty may increase. Instead “whether leaders are civic-minded or not, those who rely on a broad-based coalition emphasize the production of goods that benefit everyone in society” (Bueno de Mesquita et al., 2003, p. 37). By contrast, increases in authoritarianism may determine an upsurge in the provision of private goods “such as corruption, *pork*, patronage, cronyism, nepotism” (Bueno De Mesquita et al., 2002, p. 559, our emphasis). Empirical evidence in support of such hypothesis is, for example, provided by Burgess, Miguel, Jedwab, and Morjaria (2014), who show how in the case of Kenya transitions in/out of democracy have constrained/exacerbated pork-barrelling based on ethnic favoritism.<sup>57</sup> Similarly, Diaz-Cayeros, Estévez, and Magaloni (2012) argue that the Mexican Institutional Revolutionary Party’s loss of majority control in the late 1990s led to a reduction in the discretionary targeting of public resources to municipalities. On the other hand, however, other scholars have raised alternative, contrasting arguments (Lizzeri and Persico, 2005). Golden and Min (2013, p. 123), for instance, point out that there is “reason to suspect that distributive politics is quantitative more important in democratic than authoritarian regimes” because, in the former, office-seeking politicians are more responsive to voters.

The research features a two-step mixed-methodology. It draws on the triangulation of econometric analysis, which exploit a panel data on the allocation of public transportation investment to Turkey’s 81 provinces over 2004-2012, with elite, semi-structured interviews carried out among the country’s economic bureaucracy. Amid the different types of public investment carried out by the Turkish central state, the analysis specifically focuses on transport infrastructure because of the role the sector played in AKP’s distributive politics. As it aims to study pork-barrelling, it hence follows a ‘selection of the extreme case’ (Gerring, 2007; Seawright and Gerring, 2008) where such dynamics are most evident. In line with the paper’s research aim, the purpose of such type of selection technique is not to disprove an extant fully-

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<sup>57</sup> It is important to stress that, in spite of the increasingly unchecked powers of the incumbent government, the systematic repression on media outlets not aligned with the ruling party, and the increasingly pervasive control of state institutions (Meyersson and Rodrik, 2014), the comparison between contemporary Turkey and fully authoritarian regimes is not entirely correct. Turkey still enjoys free elections and other attributes characteristic of democratic regimes (Acemoğlu, 2014). Such comparison is hence done for heuristic reasons.

fledged theory but, rather, to provide new exploratory findings about a specific topic for which theory is scarce or unclear. Empirical results suggest that, contrary to the majority of expectations, the increase in the government power is correlated to a reduction in the use of investment to reward supporting constituencies and punish political foes' ones. Such decline in pork-barrelling has nonetheless been driven only partly by a virtuous increase in policy effectiveness. Instead, political influence over investment decisions seems to have comparatively shifted from pork-barrelling to the selection of projects driven by populist rationales and whose logics run *above* partisan politics.

The remainder of the paper is organised as follows: section two provides a review of the theoretical literature, draws from it the research hypotheses, and briefly discusses Turkey's institutional environment. Section three covers the research design, discussing the empirical econometric model and the data, as well as the selection of interviewees. Section four presents the results. Section five eventually leads the discussion to a conclusion.

## **1. Electoral hegemony and pork-barrelling**

In the last two decades, a growing number of studies has explored how public monies are distributed on the basis of not only economic rationales, but also of electoral politics considerations. There is now an extensive empirical body of research on how politicians may pass pork-barrelling legislation, that is, distribute public spending to specific cities and regions to gain electoral advantage (Golden and Min, 2013). Recent developments in this literature have started exploring why such form of strategic targeting is more intense in some settings than in others. Numerous contributions have linked the variations in distributive patterns and pork-barrelling levels to countries' institutional systems (Persson and Tabellini, 2003; Rogowski and Kayser, 2002). Drawing from the theoretical model proposed by Lizzeri and Persico (2001), Milesi-Ferretti, Perotti, and Rostagno (2002) for example exploit cross-country differences to specifically maintain that the balance between programmatic versus pork-barrel redistribution is influenced by the electoral rule. They argue that single-member district, majoritarian electoral systems are more prone to pork-barrelling than proportional-representation ones. Different electoral systems provide different incentives to politicians, which may hence respond by providing different quantities/types of public goods. In spite of the increasing attention to the link between institutional conditions and distributive patterns, the literature still provides contrasting expectations on whether highly competitive electoral environments may be characterized by higher – o lower – levels of discretionary strategic allocations of public goods compared to institutional settings with one-party hegemonic political power.

On the one hand, the literature on the delivery of public goods under different political regimes suggests that nondemocratic rule is often accompanied by lower public good provision and quality (inter alia: Deacon, 2009; Kroth, Larcinese, and Wehner, 2015; Lake and Baum, 2001). As Deacon (2009, p. 242) suggests “in a dictatorship, a rational government will spend the public budget mainly on transfers targeted to influential groups. Spending on a non-exclusive public good is unwise [...]. By contrast in a democracy, direct transfers are relatively unattractive. Spending

in public goods makes sense here.” Bueno De Mesquita, Morrow, Siverson, and Smith (2002, 2003) provide a more finely calibrated taxonomy of regimes based on two key institutional characteristics, namely the sizes of the *selectorate* and the *winning coalition*. Loosely, the first can be thought of as the enfranchised people with the right to cast their vote, while the latter as the number of votes which, according to the electoral rule, leaders need to remain in office. Overall, their predictions are similar to Deacon's (2009) ones. They suggest that private goods – “such as corruption, *pork*, patronage, cronyism, nepotism” (Bueno De Mesquita et al., 2002, p. 559, our emphasis) – become less attractive to provide compared to public goods – “such as the protection of property rights, the rule of law, transparency, protection of human rights, national security” (ibid.) – along with the increase in size of the winning coalition. In their words, all else being equal, “with many supporters demanding rewards, the costs of personal benefits required to keep their loyalty are just too high. Instead, whether leaders are civic-minded or not, those who rely on a broad-based coalition emphasize the production of goods that benefit everyone in their society” (Bueno de Mesquita et al., 2003, p. 37).

It must be underlined that most contributions in this literature generally tend to focus more on the overall quantity of public goods provided, rather than on their territorial distribution. Nevertheless, drawing from this body of work one could conjecture that increases in authoritarianism may lead to a higher use of public investment for strategic reasons. In her analysis of distributive politics in Mubarak's Egypt, Blaydes (2010) for example points out how the authoritarian regime significantly rewarded supporters of the ruling National Democracy Party and punished opponents in the delivery of basic public goods such as access to water and sewage. Similarly, Diaz-Cayeros, Estévez, and Magaloni (2012) show that the Institutional Revolutionary Party (PRI) extensively used for decades clientelism and pork-barrelling as strategies to retain its hegemonic power over Mexico's political opponents. Furthermore, they argue that the PRI's loss of majority control after the watershed elections of 2000 led to increasing societal pressure over the central government and the president and, eventually, to a reduction in the discretionary targeting of public resources to municipalities. Last but not least, Burgess et al. (2014) provide evidence of how the preferential allocation of transport infrastructure projects to Kenyan districts sharing the same ethnic group of the president was significantly reduced/exacerbated under

the transitions into/out of democracy. Drawing from the literature, the main hypothesis is the following

*Main hypothesis:* shifts from more democratic to more authoritarian institutional settings, which are accompanied by more discretionary powers of the government, are associated with an increase in pork-barrelling allocations.

On the other hand, however, Truex (2014) contends that the association between democracy and better provision of public goods is empirically extremely fragile. According to him, the idea of a ‘democratic advantage’ is simply too weak to be believed. Similarly, Magaloni and Kricheli stress how authoritarian leaders have to calculatedly distribute resources so as to maximize their survival prospects, for example broadening their appeal “by making policy concessions in a direction favoured by potential opponents” (2010, p. 126). There is therefore reason to alternatively surmise how distributive politics and pork-barrelling may be quantitative more important in democratic than authoritarian regimes (Golden and Min, 2013), and in settings with a large number of competing parties than in ones with low electoral competition (Lizzeri and Persico, 2005). As Lizzeri and Persico (2005, p. 1319) argue, the theoretical rationale is that “when there are many competing parties, the electoral base of each party tends to be smaller. To cater to their narrow support base, politicians will find it expedient to promise pork-barrel policies with narrow appeal rather than policies which benefit the supporters of the winning politician, but will not maximize aggregate welfare”. In other words, as the support base of each political party becomes a smaller fraction of the total electorate, the potential gain from targeting only a subset of the electorate increases, and hence the incentives for politicians to engage in pork-barrelling increase (ibid.). Drawing from such intuition, the alternative hypothesis states

*Alternative hypothesis:* shifts from more democratic to more authoritarian institutional settings are correlated not to an upsurge but, rather, to a reduction in the strategic use of public investment for pork-barrelling.

To conclude, the literature still provides contrasting expectations on whether the increase in incumbent parties’ hegemonic powers vis-à-vis electoral opponents may be characterized by an increase – or a decrease – in the use of public good allocations

to strategically reward supporting constituencies and punish opponents' ones. The remainder of the paper will explore the extent to which these different hypotheses help explain the case of public investment allocations in contemporary Turkey.

### **The recent transformation of Turkey's institutional environment**

Turkey has frequently been described as a polity where incumbents provide privileged treatment to people and constituencies with the 'right' political affiliation and punish opponents (Acemoğlu and Robinson, 2013; Heper and Keyman, 1998; Heper, 1985; Kemahlioğlu, 2008).<sup>58</sup> Buğra and Savaşkan (2014) indirectly offer a cogent discussion of the politicisation of the state in recent years. They show how after the AKP came into power in 2002, the country's clientelistic networks have increasingly pivoted around the newly formed political organisation.<sup>59</sup> Similarly, Özcan and Gündüz (2015) provide preliminary evidence of how the incumbent party in power since 2002 has pervasively favoured business groups close to the government in the award of tenders and in the construction of projects. Last but not least, Luca and Rodríguez-Pose (2015) explore the extent to which the allocation of public investment across the provinces of Turkey during 2004-2012 responded to 'socioeconomic drivers', as opposed to 'electorally-driven, strategic rationales'. While all these studies offer new insights into the political economy of Turkey following the arrival of the AK Party into power, their empirical design does not allow grasping possible diachronic changes in distributive politics patterns occurred along with the AKP's increase of political and societal powers.

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<sup>58</sup> In its current form, Turkey is a closed-list proportional-representation electoral system democracy. The D'Hondt formula and a national threshold of 10 percent are used to translate votes into parliamentary seats (Sayari and Esmer, 2002; Sayari, 2002). In spite of periods such as the 1990s during which fragmentation and volatility weakened the role and coherence of the party system, Turkish political parties have in general displayed a high degree of saliency in Turkey's political arena (De Leon, Desai, and Tuğal, 2009). Parties are important 'gatekeepers' for the people to gain greater access to the resources of the State and hence act as key determinants of the country's distributive politics (Kalaycıoğlu, 2001).

<sup>59</sup> Their empirical evidence seems in particular to suggest how the institutional change occurred in very recent years affected the areas where politicisation occurs, as well as the mechanisms used by political forces to influence the configuration of business interests – with particularistic behaviours now involving less a branch of the Law but rather its modification.

During the first years in power, the AK Party's performance was assessed favourably by many commenters, with the country going through a virtuous cycle of landmark economic and political reforms (Öniş, 2004) – also triggered by the start of the EU Accession Negotiations in 2005 (Luca, 2011; Özdemir-Tsarouhas, 2013; Uğur and Yankaya, 2008). Yet, after a few years in office, Erdoğan and his government started to change direction in policy, moving towards an increasingly authoritarian style.<sup>60</sup> While some commenters suggest that Turkey's democracy is still on track (Acemoğlu, 2014),<sup>61</sup> other voices have provided far more pessimistic interpretations, arguing that optimistic narratives fail to identify widespread *de facto* institutional deterioration (Meyersson and Rodrik, 2014). First of all, while elections are still considered free in the country, the political system increasingly resembles an uneven playing field for the opposition parties. Besides, particularly since 2008 a series of landmark political trials started to frontally attack military officers, the former Kemalist elite, Kurdish politicians and other social activists. As Meyersson (2014) evidences, in spite of a relatively stable number of terrorist attacks between 2002 and 2011, the number of people imprisoned under terrorist charges has increased dramatically throughout the period.

In parallel, during the same years freedom of expression experienced a draconian backlash. Figure 1 depicts the evolution of Reporters Without Borders' Turkish international ranking, as well as the Freedom House's Freedom of the Press Index, since the AKP's arrival into power. As the graph shows, 2008 and 2009 represent the main watershed years. According to the former ranking, the country has fallen from 99<sup>th</sup> in 2002 to 149<sup>th</sup> in 2015 in the world while, in 2013, Turkey had more journalists imprisoned than any other country in the world, ahead of countries such as Iran and China (Reporters Without Borders, 2013). The government crackdown of the Gezi Park protest in June of the same year similarly exemplifies a notorious example of large-scale attacks against activists and demonstrators.

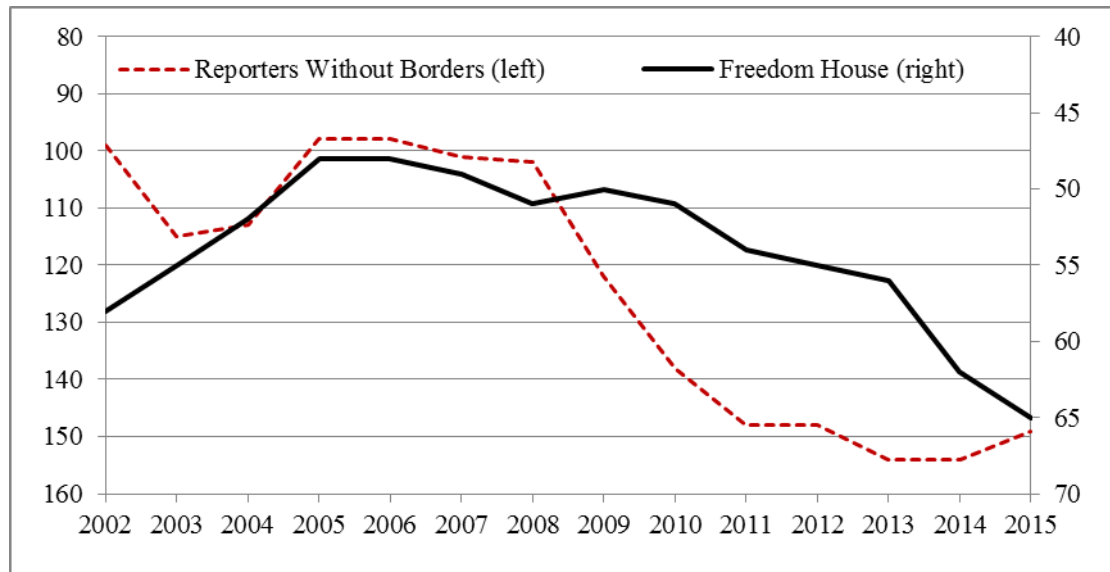
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<sup>60</sup> While mixed signals emanating from the EU are frequently invoked to explain the AKP's change, Uğur and Yankaya (2008) argue that such shift was caused by two main political calculations by the party leadership: first, the decision to cater more for the demands of its conservative core support base; second, concerns that support for EU membership would alienate the more nationalist base. Besides, the policy innovation in the field of democratisation reforms and EU membership had secured the AK Party with significant legitimacy to rule against threat from potential veto players (Dağı, 2006).

<sup>61</sup> The electoral results of 7 June 2015 can be interpreted as a sign in this direction (Scott, 2015).



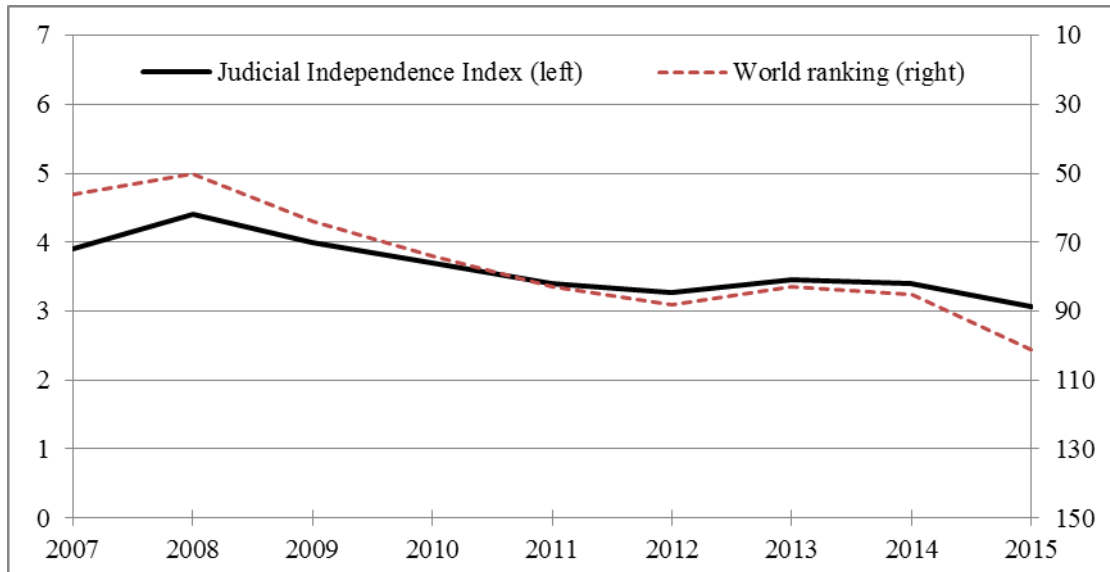
**Figure 1.** Press freedom in Turkey, 2002-2015 (Reporters Without Borders's Turkish ranking in the world, Freedom House's Freedom of the Press Index).



Source: own elaboration on data from Reporters Without Borders, Freedom House.

Figure 2 presents Turkey's index of judicial independence prepared by the World Economic Forum, as well as the country's world ranking, for the available period 2007-2015. Judicial independence is a key component of constraints on government powers. Again, the graph points to 2008 as the year after which the Turkish institutional environment started deteriorating. Last but not least, in the wake of the corruption scandal erupted in 2013, the Government drafted a series of laws aiming to bring structural changes to the appointment of judges and prosecutors, and give far-reaching powers to the National Intelligence Agency (*Milli İstihbarat Teşkilatı*, MIT) (Kiziltan and Yildirim, 2014). Arbatlı (2014) indeed argues that contemporary Turkey is increasingly shifting towards 'electoral authoritarianism'.

**Figure 2.** Judicial independence in Turkey, 2007-2015 (Judicial Independence Index, Turkey's ranking in the world).



Source: own elaboration on data from World Economic Forum.

In spite of such debate on the social and political changes occurred along with the evolution of Turkey's political scenario, no research has yet explored how the use of public investment as a tool to reward electoral supporters and punish opponents has evolved during the same period.

## 2. Research design

### Econometric analysis: model and variables

The analysis aims to test whether the constant increase in the AKP government's hegemonic political powers has led to an increase in the strategic distribution of public infrastructure investment to rewards partisan supporters and punish opponents. The analysis tests this hypothesis through the estimation of the following empirical model:

$$G_{i,t} = \beta_1 P_{j,i,t-1} + \beta_2 D_{t-1} + \beta_3 D * P_{j,i,t-1} + \beta_4 X_{i,t-1} + \alpha_i + n_t + \varepsilon_{i,t}, \quad (1)$$

where ( $j$ ,  $i$  and  $t$  respectively denote parties, provinces and years):  $G_{i,t}$  is the total amount of per capita fixed-capital investment in transportation infrastructure projects allocated to each province by the state;<sup>62</sup>  $P_{j,i,t-1}$  represents a vector of electoral variables;  $D_{t-1}$  is a dummy equal to one for each year after 2008, that is, the period after which the former Prime Minister and current President of the Republic Erdoğan turned increasingly authoritarian, starting his frontal attack to the independence of many state institutions;  $D * P_{j,i,t-1}$  is an interaction between such dummy and the electoral variables;  $X_{i,t-1}$  is a vector of socioeconomic control which should also influence the allocation of public investment;  $\alpha_i$  and  $n_t$  are respectively province and year fixed-effects, and  $\varepsilon_{i,t}$  is the error term.<sup>63</sup> A one-year lag between left- and right-hand side variables is included to account for the investment project cycle as well as the time necessary for tactical concerns to potentially influence redistributive outcomes. This set-up is somehow similar to a Difference-in-Difference equation, with the interaction term  $D * P$  being the 'treatment variable', the years until 2008 the 'pre-treatment' period, and the years from 2009 onward the 'post-treatment period'.

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<sup>62</sup> While local administration can invest independently, the central state controls almost 90% of all public investments.

<sup>63</sup> Investments projects are very likely to stretch over many years so allocations, as well, may be correlated over time. While this fact may support the inclusion of the dependent variable's lagged value  $Y_{i,t-1}$  among the regressors, we reject such choice because of the bias that affects FE estimators of dynamic models in the order of  $1/T$ , that is, a level too high for our short time span. Tests available on request show that the inclusion of lagged investments into regressions indeed confirms how current allocations are correlated to previous years' ones, but do not alter the political variables' results.

Ceteris paribus, a positive estimate of  $\beta_3$  for the incumbent party would hence mean that provinces with a higher vote share for it have been advantaged more after 2008 than before it in the allocation of investment. By contrast, a positive  $\beta_3$  coefficient for an opposition party would suggest that the ‘punishment’ of opponents’ strongholds by the AKP government has reduced. The dependent and the explanatory variables, summarised in Appendix 1, are described in the following paragraphs.

*Public investment.* The variable consists in the amount of per-capita public investment in transportation and communication infrastructure projects. Values are expressed in 1000 Turkish Lira (TL) at 2012 prices and in logarithmic terms in order to control for non-linear relations.<sup>64</sup> Along with the economic development of the country, incumbent politicians have focused on different public goods to preferentially punish/reward political supporters. During the 1990s, for example, bringing electricity, village roads and high schools was a common strategy to punish/reward voters. We hence focus on transport investment because of the role the sector played in AKP’s more recent distributive politics. In other words, as we aim to study the evolution of pork-barrelling, we select the ‘extreme case’ where such dynamics are likely to be most evident. In line with our research aim, the purpose of such type of selection technique is not to disprove an extant fully-fledged theory but, rather, to provide new exploratory findings about a specific topic for which theory is scarce or unclear. Among the different techniques discussed in the literature, Gerring (2007), as well as Seawright and Gerring (2008), indeed discuss the selection of extreme cases as useful to probe for new – but as yet unspecified – explanations/hypotheses.

*Party vote shares.* Party vote shares at national elections are the first, most immediate variables able to capture the political clout of provinces. We account for the AK

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<sup>64</sup> A significant proportion of investments is registered as part of multi-provincial projects, so it is not possible to match it with any specific province. Typical multi-provincial projects are the construction of roads linking more than one province, or the national wholesale purchase of equipment and machineries. Our analysis only concentrates on the investments which can be attributed to a single province. Data limitation is – alas – one of the biggest problems in empirical research, particularly in emerging countries. Aware that the data may potentially be imprecise and in absence of any other viable solution, we follow the same approach as earlier researchers who have worked on public investments in Turkey (Deliktaş et al. 2008; Karadağ et al., 2004; Celebioğlu and Dall’erba, 2010).

Party, the Republican People's Party (*Cumhuriyet Halk Partisi*, CHP), the National Action Party (*Milli Hareket Partisi*, MHP), and the Kurdish Party.<sup>65</sup> During the period of analysis these four main parties overall received nearly 80% of total votes.

*Electoral competition.* Such variable is constructed as the negative of the absolute value of the vote difference between the incumbent party and its main challenger in each province. The challenger is the second party where the AKP has garnered the greatest number of votes or an opposition party, when this is not the case. As we take the negative of the absolute value, we will expect the variable to show a positive sign, meaning that provinces where the vote difference is lower receive comparatively more funds.

*Contextual development level.* Due to changes in early 2000s in data collection by Turkstat, provincial data on GDP for the whole period of analysis does not exist. We then try to control for the contextual socioeconomic disadvantage by including the Provincial Development Index. It consists in a composite indicator developed by the Ministry of Development through principal component analysis. It takes into account economic (statistics on manufacturing, constructions, agriculture, value added, investments and finance) and, to a lesser extent, social factors (demographic structure, employment, education, health and various developmental parameters). While we are aware that the index may not fully be a proxy for contextual wealth, there is no viable alternative.

*Manufacturing employment.* We concentrate on the per cent of employment in manufacturing on total employment because of the central role that industrialisation has played in the structural transformation of Turkey's economy in recent years.

*Education attainments.* We control for the percentage of students in higher education (vocational training and university) on total population, as a proxy for the level of education in each province.

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<sup>65</sup> Under the allegation of supporting the Kurdistan Workers' Party (PKK), the main Kurdish parties have been repeatedly banned over the years. We therefore consider, at each election, the party in place at that moment. Since running as independent candidates and then agglomerating into a single group after elections has been a strategy to circumvent the seat allocation minimum national thresholds, we jointly consider Kurdish and independent votes.

*Rural population.* In a country such as Turkey characterised by late development and a rapid, recent urbanisation, the regional developmental inequalities are likely to be correlated with the urban/rural divide, which we proxy by the per cent of population living in rural areas.

*Population.* While the other socioeconomic regressors, as well as the dependent variable, are normalized per-capita, population is still included in the equation as it is customarily considered an important driver of investment allocations.

## **Data**

The analysis employs a panel data set covering 81 Turkish provinces over the period 2004-2012. Because of the one-year lag between left- and right-hand side variables, the length of the panel decreases from 9 to 8 years. Basic data on national public investments per province was derived from the Ministry of Development (former State Planning Organisation). Electoral data for the 2002, 2007, and 2011 elections was gathered from the European Election Database, as well as from Turkey's Electoral High Committee. We annualised political variables by extending electoral results over each legislature. Electoral wards within metropolitan provinces are not taken into account and therefore national elections' data are collected for provinces, which constitute the power bases of political parties and one of the most important units of political representation (Güvenç and Kırmanoğlu, 2009). Population information was obtained merging 2005-2009 OECD figures with Turkstat regional database's 2007-2011 figures. Other socioeconomic data were obtained from Turkstat's regional database and interpolated in case of missing years.

A review of data sources, summary statistics for each variable and pairwise correlation coefficients are provided in Appendices 1, 2 and 3. Appendix 4, instead, presents the distribution of the average amount of fixed-capital investment until and after 2008.

### **Qualitative analysis: selection of interviewees**

The final part of the analysis draws on qualitative research methods. In doing so, we follow Lieberman's (2005, p. 440) guidelines for the use of in-depth analysis “to answer those questions left open by the LNA [large-N analysis, that is, quantitative analysis, A./N.] – either because there were insufficient data to assess statistical relationships or because the nature of causal order could not be confidently inferred.” Concretely, the analysis is based on elite, semi-structured interviews carried out between October and December 2014 in Turkey’s central economic bureaucracy.<sup>66</sup> The interviewees were selected integrating purposive and chain sampling techniques. First, officers occupying positions relevant for the project cycle were contacted. Each of them was then asked to provide further contacts. A snowball selection of potential interviewees was hence nested into the initial purposive sampling. The final sample includes 32 interviewees, of which 18 civil servants from the Ministry of Development, and 14 individuals from other organisations, namely six civil servants from the Ministry of Finance, three key public policy scholars from Bilgi University, Boğazici University, and Koç University, two experts from the Delegation of the EU to Turkey, one retired manager from the Undersecretary of Treasury, one public finance expert from Turkey’s Economic Policy Research Foundation (*Türkiye Ekonomi Politikaları Araştırma Vakfı*, TEPAV) with previous experience at the Undersecretary of Treasury and the World Bank, and one expert from the Ministry of Transport’s General Directorate for Highways (*Karayolları Genel Müdürlüğü*, KGM).

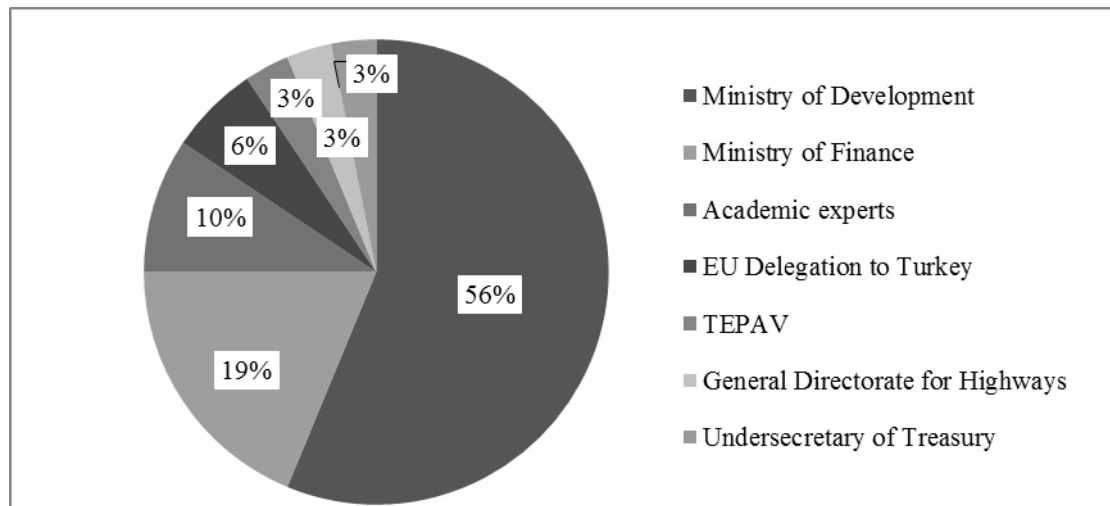
In the selection of interviewees, the Ministry of Development was targeted preferentially because the organisation holds the main responsibilities for the allocation and coordination of public investment. We hence focused our main attention on the latter organization on the ground that it is exactly the place where policies are developed. The inclusion of interviewees from external organisations was foreseen to customarily cross-validate the correctness of information. Figure 3 and

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<sup>66</sup> Four of the interviews were conducted during a pilot research phase between October 2012 and September 2013.

Appendix 5 respectively provide the institutional breakdown and a detailed list of the interviewees' sample.

**Figure 3.** The composition of the interviewees' sample (percentages, clockwise).



To increased respondents' eagerness to talk and discuss personal and institutional conflicts more freely, interviewees were accessed only after having secured the support of trusted individuals who could 'warrant' the interviewer's trustworthiness. Interviews lasted on average between 60 and 90 minutes. Previous work experience in the country and the use of Turkish in communication further helped 'breaking into the bureaucratic black box'. Considering the sensitivity of the questions being asked, interviews were not recorded. Interviewees were also guaranteed anonymity in order to encourage 'free speech'. Finally, interviewees were asked to provide information on their most-followed media outlets. Such information was then used to 'control' for respondents' heterogeneous political views – which may influence answers about the bureaucracy/politics relationship.<sup>67</sup>

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<sup>67</sup> Similarly to many other countries around the world, different Turkish media outlets are associated with different political views.



### 3. Empirical analysis

#### Econometric estimation and results

Our identification strategy adopts a fixed-effect (FE) heteroscedasticity- and autocorrelation-robust estimator with province and year fixed effects. Such estimator has the advantage of controlling for all the possible omitted variables that are idiosyncratic to provinces as well as for cross-sectional common shocks. Considering that plans for time  $t$  are prepared in advance and the approved by the winter of time  $t-1$ , we include a one-year lag between dependent and explanatory variables, which will also help minimize the endogeneity between right- and left-side variables. To control for potential serial and spatial correlation, we estimate robust standard errors adjusted for clustering at the provincial level (81 clusters). As a robustness check, we follow Angrist and Pischke (2009)'s suggestion and add province-specific time trends to the list of controls. The inclusion of province-specific time trends, that is, coefficients obtained multiplying the province fixed-effects by year-specific intercepts, allows 'treatment' and 'control' provinces to follow different trends over time. Besides, it will also help minimize the potential risk of omitted variable bias. For example, we do not have data to control for previous public investment stock, and hence would be otherwise unable to rule out the hypothesis that higher/lower investment flows during the 'post-treatment' period may be influenced by the amount of investments already channeled before 2009.

Table 1 presents the results. Columns one and two show the baseline estimates for the electoral variables, respectively excluding and including socioeconomic controls. Columns three to seven report the results obtained adding the dummy for the post-2008 period, as well as its interaction with each individual electoral variable. Column eight presents the interactions together. Finally, column nine adds the province-specific time trend to the latter model, allowing to further control for potential omitted variables.

**Table 1. Multivariate regressions of the provincial per-capita public investment in transport and communication infrastructures: robust Fixed Effects estimates (2004-2012).**

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
AKP votes	0.0495** (0.0194)	0.0334* (0.0176)	0.0327* (0.0181)	0.0334* (0.0176)	0.0340* (0.0179)	0.0195 (0.0195)	0.0336* (0.0176)	0.0153 (0.0201)	0.0156 (0.0199)
CHP votes	-0.0362** (0.0158)	-0.0417*** (0.0150)	-0.0439*** (0.0163)	-0.0374 (0.0234)	-0.0480*** (0.0150)	-0.0422*** (0.0147)	-0.0414** (0.0162)	-0.0763*** (0.0261)	-0.0749*** (0.0263)
MHP votes	0.0276 (0.0315)	0.0361 (0.0286)	0.0345 (0.0296)	0.0366 (0.0289)	0.0940** (0.0429)	0.0508* (0.0294)	0.0365 (0.0302)	0.0858** (0.0425)	0.0860** (0.0425)
Kurdish votes	0.0120 (0.0199)	0.00266 (0.0188)	0.00116 (0.0198)	0.00311 (0.0189)	0.00116 (0.0196)	-0.0164 (0.0215)	0.00271 (0.0186)	-0.0247 (0.0244)	-0.0237 (0.0239)
El. Comp.	0.00814 (0.00853)	0.00304 (0.00848)	0.00189 (0.00839)	0.00314 (0.00847)	0.00147 (0.00873)	-0.00382 (0.00836)	0.00344 (0.0108)	-0.00450 (0.0114)	-0.00431 (0.0113)
Post-2008			1.283 (0.846)	1.087** (0.515)	1.474*** (0.513)	0.768 (0.474)	0.998* (0.566)	0 (0)	0 (0)
Post#AKP			-0.00464 (0.00979)					0.0236 (0.0178)	0.0222 (0.0173)
Post#CHP				-0.00442 (0.0135)				0.0440* (0.0227)	0.0416* (0.0217)
Post#MHP					-0.0536*** (0.0202)			-0.0221 (0.0249)	-0.0225 (0.0246)
Post#Kurd						0.0244** (0.00976)		0.0381** (0.0157)	0.0370** (0.0150)
Post#El. Comp.							-0.000691 (0.00863)	0.00196 (0.0134)	0.00156 (0.0132)
Constant	1.261 (0.903)	-5.261** (2.457)	-5.090** (2.475)	-5.294** (2.487)	-4.935* (2.535)	-3.176 (2.514)	-5.275** (2.490)	-2.368 (2.806)	-2.406 (2.781)
Observations	648	648	648	648	648	648	648	648	648
R-squared	0.083	0.113	0.114	0.113	0.134	0.134	0.113	0.149	0.149
Number of id	81	81	81	81	81	81	81	81	81
Prov FE	yes	yes	yes	yes	yes	yes	yes	yes	yes
Year FE	yes	yes	yes	yes	yes	yes	yes	yes	yes
Controls		yes	yes	yes	yes	yes	yes	yes	yes
Prov*year FE									yes

Robust standard errors in parentheses: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. Controls include: provincial development index, manufacturing employment, education attainments, rural population, and population.

As expected, column one shows how the central allocation of transport investment across the provinces of Turkey across the period 2004-2012 is indeed correlated to the electoral results. In line with earlier research (Luca and Rodríguez-Pose, 2015) and theoretical predictions for a close-list, proportional multi-member electoral system (McGillivray, 2004), coefficients in particular support the core-voter hypothesis, according to which strategic allocations are done to cement support among core partisan voters. The findings are robust against the inclusion of socioeconomic controls (column two). Holding other variables constant, and

transforming the dependent variable's coefficient in linear terms, column two shows that a one percent increase in the votes for the AK Party is correlated to an average increase of nearly 3.4 percent in the amount of per-capita investment. Conversely, a one percent increase in the votes for the main opposition party, the CHP, is correlated to an average reduction of more than 4.2 percent.

Moving from the first two columns to the rest of the table, results show significant differences in the distributive politics patterns for the pre- and post-2008 sub-periods. Columns eight and nine are our preferred specifications, in that they allow controlling for each political variable's interaction with the post-2008 dummy. While the linear political terms maintain the same signs as in the first models, their significance and magnitude change significantly. The coefficient for votes for the AKP remains positive, but turns insignificant. The coefficient for the interacted term is similarly positive, yet highly insignificant. Moving to the main opposition party, the CHP, results show a very unexpected and interesting result: after controlling for the two different periods, coefficients indicate how the unfavourable allocation of investment to CHP provincial strongholds has been markedly higher during the AK Party's first years in office than during the period 2009-2012. Results show a similar picture for the case of provinces with strong support for the pro-Kurdish party. While the coefficient for the latter's linear term is insignificant in all models, its interaction with the post-2008 dummy is positive and strongly significant. This finding is particularly interesting considering how, during the 1980s and 1990s, mostly Kurdish-inhabited areas were persistently disadvantaged in the allocation of public investment (Danielson and Keles, 1985). As many interviewees pointed out, the increase in the allocations to Kurdish-inhabited provinces has followed the attempt carried out by AKP government to solve the longstanding problem of Kurdish separatism and underdevelopment. Under this light, the result can also be read as a confirmation of Magaloni and Kricheli (2010), who stress how authoritarian leaders have to calculatedly distribute resources so as to maximize their survival prospects, for example by broadening their appeal to potential opponents.

To conclude, the empirical evidence seems to lean towards the alternative hypothesis, according to which the increase in the social and political powers of the government is associated with a reduction – and not an increase – in the strategic use of public

investment to reward supporters and punish opponents. Results tend to support Golden and Min's (2013) as well as Lizzeri and Persico's (2005) intuitions of how pork-barrelling and special-interest policies may be particularly responsive to democratic electoral competition. In other words, the quantitative empirical findings seem to suggest how a more authoritarian AK Party has felt less of a need to reward its core constituencies, and freer to transfer funds to other areas of the country.

Istanbul, Ankara, and Izmir – Turkey's three main cities and economic hubs – have been significant recipients of overall transport infrastructure investment flows in recent years. Considering the different political orientation of these cities – with Izmir traditionally being a CHP stronghold, and Istanbul and Ankara more frequently showing a higher support for the AKP – Appendix 6 checks the robustness of the estimates against their exclusion. The results show that coefficients are virtually identical to the ones of the full specification, indicating that potential differences in the allocation of funds to the big Turkish cities does not seem to make a difference for the link between politics and the distribution of funds. While grounded in an ample body of work, our empirical results may yet potentially suffer from endogeneity caused by reverse causality, since higher/lower investments by the central government at election  $t$  may increase/decrease the votes given to the governing party at subsequent polls (Larcinese, Snyder, and Testa, 2012). Unable to find robust instrumental variables to identify exogenous sources of variation in electoral outcomes, the following section follows Lieberman's (2005) principles and aims to complement the econometric results with in-depth qualitative evidence.

### **Potential explanatory mechanisms: qualitative findings**

Overall, the quantitative evidence suggests that the AKP government has not been immune from rewarding its core constituencies with more investment. At the same time, the degree of rewards, as well as the extent to which electoral opponents' constituencies have been punished, seem to have decreased as the incumbent government has become more authoritarian. Detailed accounts elucidating the first finding have been provided by earlier research (cf. Luca, 2015; Luca and Rodríguez-Pose, 2015). Yet, how can the second result be explained?

A first hypothesis which needs attention is that the econometric results may be influenced, and biased, by potential ‘Keynesian attempts’ to boost macroeconomic demand following the 2008/9 economic recession. Throughout the implementation of the Ninth Multiannual Development Plan, the government indeed decided to give more weight to investment in transport infrastructures than initially foreseen. The fact was acknowledged in the Ministry of Development's (2014) Tenth National Development Plan. While it is hence true that the country experienced an increase in investment in transport projects, a significant amount of literature has nonetheless shown how the allocation of extraordinary ‘Keynesian’ programmes, such as the US ‘New Deal’, has been frequently biased towards political rewarding (inter alia: Wright, 1974). Besides, the inclusion of province-specific time trends helps controlling for such potential source of bias. In other words, while it may be true that the reallocation of funds towards transport projects may have partly been a reaction to the downturn, the crisis alone is not enough to explain the distributive politics patterns which emerge from the econometric results.

Findings from the interviews point instead to a different direction. While the majority of the interviewees expressed concerns about the excessive powers that the government has recently adopted, most of them nonetheless acknowledged how the strong government has streamlined policy decisions. The two following excerpts, respectively by a retired manager from the Undersecretary of Treasury and a manager from the Ministry of Development, provide an example:

“Before Erdoğan, with coalition governments [that is, before 2002, A./N.], each party would try to influence the ministry they controlled, so coordination was more problematic. Now Erdoğan has much more power in investment decisions. So at the decision level problems are lower.”<sup>68</sup>

“In coalition times, there was an unsigned agreement among coalition members not to ask things. Now, with a single-party government, pressure is higher. [In the past] we would go to our general director and say that a project is not necessary. And the issue would stop there. But now the matter comes directly to our Minister. In some sense this pressure works as a facilitator. We have for example reduced the difference between the best and worst regions.”<sup>69</sup>

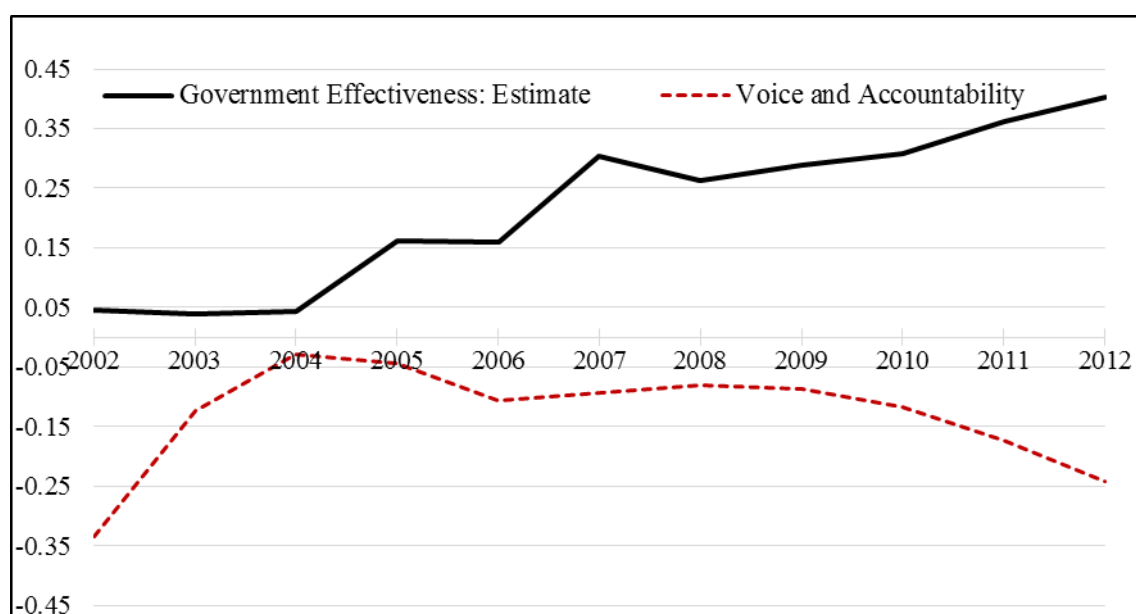
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<sup>68</sup> Interview number 1.

<sup>69</sup> Interview number 26.

Indeed, data by the World Bank on the evolution of governance indicators, presented in Figure 4, shows how, while political voice decreased in recent years, the level of government effectiveness has followed an opposite, upward trend. In other words, the strong government may have increased coordination among different institutions and put under control inter-party pork-barreling.<sup>70</sup>

**Figure 4.** Government effectiveness and political voice in Turkey, 2002-2012 (World Bank governance indicators).



Source: own elaboration on data from World Bank.

Preliminary confirmation is offered by another manager from the Ministry of Development. Although overall critical about the current government, the official's quote is informative:

"Today no MP has the power to implement small pork-barrel. The Parliament and the party are strongly disciplined."<sup>71</sup>

Such finding is interesting because it confirms, at least in part, the basic intuition put forward by Lizzeri and Persico (2005) on the potential drawbacks of electoral competition. The aim of their paper, as well as this analysis, is not to argue that

<sup>70</sup> Such hypothesis is, somehow, similar to the idea of a 'benevolent dictator', that is, an authoritarian leader exercising absolute power but doing so for the benefit of the population.

<sup>71</sup> Interview number 12.

electoral competition is necessarily bad. Much literature shows how a many-party system is essential to allow different ethnic and ideological cleavages to find expression in the political system (ibid.). Nonetheless, their argument is to highlight the possibility that electoral completion can have unexpected and counterintuitive effects, such as on the strategic use of public goods for electoral rewarding.

As Filiztekin and Bakış (2015) point out, the continuous electoral victories experience by the AK Party since its unexpected success in 2002 deserves careful investigation. While earlier research has mostly linked such political success to the country's positive economic performance experienced in the 2000s, or to Turkey's rooted ideological cleavages (cf. Akarca and Tansel, 2006; Çarkoğlu, 2008), the current analysis points to the ability of the government to, somehow, 'deliver' public goods as another explanation (cf. Müftüler-Baç and Keyman, 2012, for a partly similar argument).<sup>72</sup>

If the interviews somehow confirm how the strong powers of the government may have streamlined decision-making, such result should not be confounded with a completely positive narrative. As a matter of fact, evidence seems to suggest that, although the government is now more able to implement policy, such change is not without drawbacks. A manager from the Ministry of Development, for example, stressed out how the economic bureaucracy has experienced a reduction in its autonomy and, hence, its technical ability to manage the investment project cycle:

"Before the arrival of AKP into power, in coalition times, Ministries were under the control of separate parties. Now institutions are all closer so coordination is faster, even though this may determine that agreements occur at high, political level instead of the technical level."<sup>73</sup>

Relatedly, some of the interviewees stress how investments are increasingly driven by populist choices. In other words, as the following quote by another manager from the Ministry of Development suggests, the increasing power of the government over policy-making and the specular reduced autonomy of the economic bureaucracy (cf.

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<sup>72</sup> As Filiztekin and Bakış (2015) point out, structural explanations are further influenced by location, in the sense that the same variables seem to have different impacts on voting behaviours depending on the context where voters live.

<sup>73</sup> Interview number 18.

Luca, 2015) may have simply determined a shift from pork-barrelling to populist spending. The following quote provide clear prima-facie evidence in support of such hypothesis:

“In the 1990s governments had very short life. So people [politicians, A./N.] would try to do as much as possible to get things done for themselves and their supporters and constituencies. They would try to do pork-barrelling. Now we have a single political pressure. For example, roads are very costly for Turkey. So the biggest priority would be to enlarge the train network. But the government prefers the High Speed Train, and other big projects such as the Third Airport, the Third Bridge, Marmaray, etc. [...]. This is political pressure. And it’s costly for Turkey. [...] We moved from pork-barrelling to big projects.”<sup>74</sup>

Complaining about how his department struggles to shield from political pressure in the selection of projects, a senior manager indeed provides a very pessimistic opinion of how public investment in transport infrastructure has been used and managed in recent years:

“[Today] investments are not selected by need or by cost criteria. They are selected by General Directors. The Prime Minister, or the Ministry of Transport, is just looking for the total number of km of highways you did, for how many airports, or how much high speed rail you built. Whether the terminal is efficient, whether it is effective does not matter. There are public-private partnerships, such as the Gebze-Izmir Highway or the Third Bridge projects. They are technically very careful, because they invest their own money. Transport investment is beyond management.”<sup>75</sup>

While the figures provided are overestimated, the following excerpt by a planning expert offers another concrete example of such dynamic:

“If you read page 236 of the 2014 programme, you understand that we should not invest at all in motorways but invest in other means of transport. But in the last years there have been 70 trillion TL investments in motorways. We allocate 4 trillion at the beginning of the year, and at the end they have become 9. We send reports saying that projects are good/bad, giving technical opinions. [...] Yet, so far, I cannot remember even one case when they rejected a project after our

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<sup>74</sup> Interview number 12.

<sup>75</sup> Interview number 17.



evaluation. At the end, unless you get politicians away from populist approaches, all the ideas about effective planning rest on paper.”<sup>76</sup>

To conclude, the qualitative analysis provides evidence in support of two main findings. First, the stronger government seems to have streamlined policy decisions. Second, while such trend may have had some positive effects on policy effectiveness, there is nevertheless evidence suggesting that a partial shift from pork-barrelling to the selection of populist projects whose logics run above partisanship may have occurred. Drawing from the interview findings, as well as from the case of Istanbul discussed by Christie-miller (2014), we can speculate that two main reasons may have led the government to embark into populist investment spending: first, they may have done so as a way to build mass support (Magaloni and Kricheli, 2010). Relatedly, the move may also be linked to Erdoğan and his party’s desire to show their grand ‘New Turkey’ – a term rhetorically used to describe the allegedly ‘new era’ the country is experiencing under the AKP ruling. A second, complementary explanation is that the AK Party may simply have reduced its focus on pork-barrelling and, instead, become increasingly sensitive to special interest groups. Explaining why the institutional structure of the project cycle management was transformed in 2008, the following quote by a senior manager provides preliminary support in favour of this second hypothesis:

“Today [...] billion of Turkish Liras are spent just for the highway sector. This is pumping money into Turkey. Construction firms were getting irritated. The Ministry of Transport wants to show people that things are done. And the best way is to build highways. So they changed the institutional structure. This reduced the power of the State Planning Organisation [currently Ministry of Development, A./N.], and increased the power of firms. We were asking for performance indicators. So [the reason why operational powers were transformed] was mainly political.”<sup>77</sup>

Buğra and Savaşkan (2014) as well as Özcan and Gündüz (2015) indeed put forward empirical evidence showing how firms with political connections with the government have experienced abnormal performances and growth over the recent years.

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<sup>76</sup> Interview number 25.

<sup>77</sup> Interview number 17.

## 4. Conclusion

Drawing from the analysis of public transport investment between 2004 and 2012, the paper aimed to answer the following closely related questions: (1) is the transformation of Turkey's political scene from a competitive political system towards the electoral hegemony of Erdoğan and his party correlated to an increase in the way public investment is allocated for tactical redistribution? (2) If yes, what potential dynamics help explain such results? The research aim is informed by the literature: in spite of a significant increase in the research focused on distributive politics, there is still contrasting evidence on whether shifts from highly competitive electoral environments towards electoral one-party dominance may lead to higher – or lower – levels of pork-barrelling. The empirical methodology featured a two-step mixed-methodology. Specifically, it drew on the triangulation of econometric analysis, based on a panel data on the allocation of public transportation investment to Turkey's 81 provinces over 2004-2012, with elite, semi-structured interviews carried out among Turkey's economic bureaucracy in charge of investment allocation and management.

The empirical analysis provides evidence of how the increase in the government power is unexpectedly correlated to a reduction in the way investment allocations to Turkish provinces are used to reward supporters and punish opponents. Such reduction in pork-barrelling was nonetheless determined only partly by a virtuous increase in policy effectiveness. Political influence over investment decisions seems to have comparatively shifted from inter-party pork-barrelling to the selection of projects motivated by populist rationales and whose logics run *above* partisan politics. Further research could perhaps explore the extent to which such shift was driven by a 'grand' desire to show the 'New Turkey' – a term rhetorically used to describe the allegedly 'new era' the country is experiencing under the AKP ruling – or, instead, by the increasing influence of big interest groups, as the findings by Buğra and Savaşkan (2014) and Özcan and Gündüz (2015) may lead to surmise.

Two analytical caveats must be taken into account. The first one relates to potential biases caused by endogeneity. Earlier research conducted on similar data and for the same period (Luca and Rodríguez-Pose, 2015) suggests that endogeneity caused by

reverse causality is not a serious concern. Nevertheless, we cannot entirely rule out such potential risk. Second, the results suggest that the strategic use of public investment in transport infrastructure to reward supporting provinces and punish opponents has decreased through AKP's incumbency. Yet, it must be borne in mind that public investment is a public good which, by its own nature, is not excludable. Diaz-Cayeros, Estévez, and Magaloni (2012, p. 27) for example discuss the hypothesis of portfolio diversification – that is, the possibility that political machines may use different goods for different targets . They suggest how “machines [may] use private benefits to buy off core voters, and public goods to attract swing voters” (ibid., p. 27). Research on the management of private, excludable goods such as welfare care, or public tenders, may hence uncover results different from the ones documented in the current study.

The analysis' implications for theory and policy are twofold. First, the results contribute to the current debate on the reasons and societal implications of the AK Party's electoral hegemony over Turkey's politics. While earlier research has frequently linked such political success to the country's positive economic performance experienced in the 2000s, and to Turkey's rooted ideological cleavages (cf. Akarca and Tansel, 2006, Çarkoğlu, 2008), the findings of the current analysis points to the ability of the government to, somehow, 'deliver' public goods as a further reason (cf. Müftüler-Baç, Keyman, 2012 for a partly similar argument). At the same time, the qualitative preliminary evidence on the shift from pork-barrelling to populist spending raises concerns about the sustainability of current investment practices. Future research should be devoted to explore such issue.

More broadly, the results contribute to the literature on distributive politics by addressing a previously unexplored gap. The empirical evidence seems to overall support the analysis' alternative hypothesis, according to which shifts from democracy towards more authoritarian regimes can lead to a reduction in the allocation of public goods following electoral interests – and not an increase, as the literature on democracy and public goods (Bueno De Mesquita et al., 2002) would lead to surmise. We explain such unexpected finding drawing on Lizzeri and Persico's (2005) theoretical intuition that projects with narrow benefits may be more appealing to office-motivated politicians than to leaders with very large electoral bases and less

concerns about winning elections. The aim of the analysis is not to claim that electoral competition is necessarily bad. A significant amount of research has argued that democracies are overall better than autocracies at fostering effective policymaking. Besides, much literature shows how a many-party system is essential to allow different ethnic and ideological cleavages to find expression in the political system (Lizzeri and Persico, 2005). Relatedly, recent in-depth research on Turkey's central management of public investment has raised concerns on whether the increase of the AKP government's discretionary power over state institutions may have long-term negative consequences on the effective management of investment projects (Luca, 2015). Nevertheless, the current analysis adds to the literature by showing that the reduction in electoral competition can lead to unexpected and counterintuitive effects, such as on the strategic use of public goods as a mean for pork-barrelling.

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## Appendices

### Appendix 1. Description of variables and sources of data.

Variable	Variable description	Source
Public investment	Ln of the amount of per-capita fixed capital investment annually allocated to each province in transport and communication infrastructure projects	Ministry of Development (former State Planning Organisation)
AKP votes	% of votes for the AKP	Turkey's electoral High Committee, European Election Database
CHP votes	% of votes for the CHP	Turkey's electoral High Committee, European Election Database
MHP votes	% of votes for the MHP	Turkey's electoral High Committee, European Election Database
Kurdish party votes	% of votes for the Kurdish party and for independent candidates	Turkey's electoral High Committee, European Election Database
Electoral competition	Negative absolute value of the vote difference between the incumbent party and its main challenger in each province	Own calculation on data from the Turkey's electoral High Committee, European Election Database
Development index	Provincial Development Index	Own calculation from: State Planning Organisation (1996, 2003a), Baday-Yıldız, Sivri and Berber (2010)
Manufacturing employment	% employment in manufacturing	Turkstat Regional Database
Education attainments	% high education (vocational training and university) students on the total population	Turkstat Regional Database
Rural population	% of rural population	Turkstat Regional Database
Population	Total number of inhabitants per province	OECD, Turkstat Regional Database

## Appendix 2. Summary statistics.

<i>Variable</i>	Mean	St. Dev.	Minimum	Maximum
Public investments	3.025	1.423	0	9.215
AKP votes	45.037	14.811	6.5	84.82
CHP votes	18.541	9.506	2.01	52.5
MHP votes	12.759	7.129	0	44.9
Kurdish party votes	9.345	16.417	0	70.8
Electoral competition	-26.18	15.363	-70.4	-0.1
Development index	-0.001	0.987	-1.659	4.138
Manufacturing employment	20.963	9.444	4.7	46.3
Education attainments	4.557	19.931	0.039	254.955
Rural population	37.849	13.5677	1.01	70.084
Population	898500.2	1538670	65126	1.40e+07

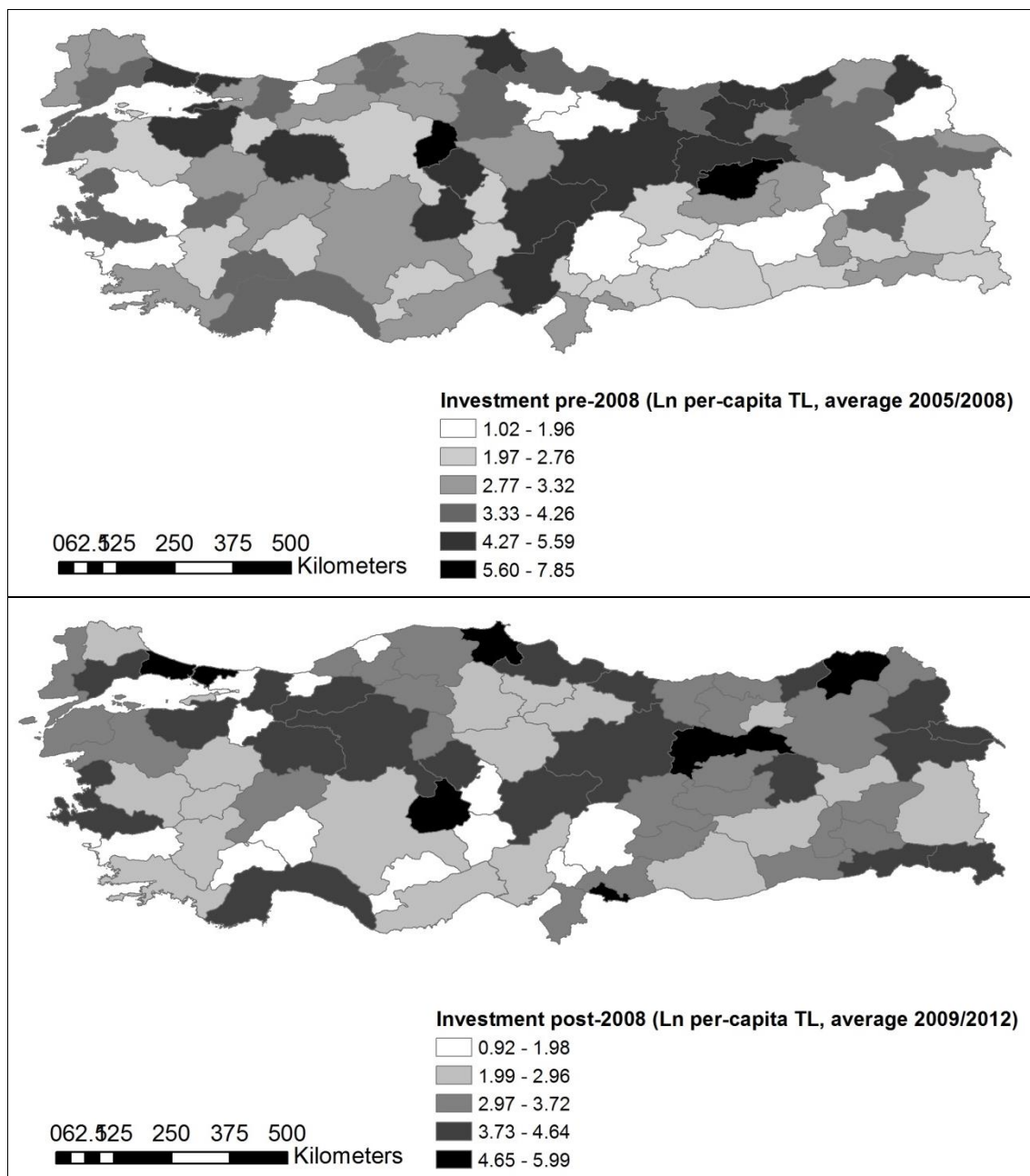
Source: own elaboration.

## Appendix 3. Pairwise correlations among variables.

	Invest.	AKP votes	CHP votes	MHP votes	Kurd. votes	El. comp.	Dev. Index	Manuf. Empl.	Educ. Attain.	Rural pop.	Pop.
Investments	1										
AKP votes	0.116*	1									
CHP votes	0.078*	-0.304*	1								
MHP votes	-0.120*	0.072	0.189*	1							
Kurdish v.	-0.034	-0.396*	-0.311*	-0.538*	1						
El. Comp.	-0.103*	-0.641*	0.430*	0.117*	0.065	1					
Dev. Index	0.091*	-0.073	0.484*	0.272*	-0.523*	0.221*	1				
Man. Emp.	-0.041	-0.005	0.301*	0.072	-0.305*	0.050	0.596*	1			
Educ. Att.	0.084*	0.001	0.122*	0.051	-0.095*	0.068	0.159*	0.265*	1		
Rural pop.	-0.120*	-0.087*	-0.168*	-0.114*	0.166*	0.020	-0.668*	-0.557	-0.216*	1	
Population	0.158*	-0.020	0.206*	-0.059	-0.063	0.127*	0.655*	0.320*	-0.014	-0.526*	1

Source: own elaboration. \* p<0.05.

**Appendix 4.** Geographical distribution of average fixed-capital public investment in transport and communication infrastructures until (above) and after 2008 (below).



Source: own elaboration on data from Ministry of Development database.

## **Appendix 5.** List of interviewees.

- (1) Retired manager, Undersecretary of Treasury, Ankara, 24/10/2014.
- (2) Senior manager, Ministry of Development, Ankara, 2/10/2014.
- (3) Senior planning expert, Ministry of Development, Ankara, 3/10/2014.
- (4) Director, Turkey's Economic Policy Research Foundation (Türkiye Ekonomi Politikaları Araştırma Vakfı, TEPAV), Ankara, 27/10/2014.
- (5) Senior planning expert, Ministry of Development, Ankara, 27/10/2014.
- (6) Manager, Ministry of Development, Ankara, 28/10/2014.
- (7) Senior planning expert, Ministry of Development, Ankara, 30/10/2014.
- (8) Finance expert, Ministry of Finance, Ankara, 19/11/2014.
- (9) Finance expert, Ministry of Finance, Ankara, 19/11/2014.
- (10) Manager, Ministry of Finance, Ankara, 21/11/2014.
- (11) Finance expert, Ministry of Finance, Ankara, 2/12/2014.
- (12) Manager, Ministry of Development, Ankara, 1/12/2014.
- (13) Manager, Ministry of Development, Ankara, 2/12/2014.
- (14) Finance expert, Ministry of Finance, Ankara, 3/12/2014.
- (15) Finance expert, Ministry of Finance, Ankara, 3/12/2014.
- (16) Manager, Ministry of Development, Ankara, 3/12/2014.
- (17) Senior manager, Ministry of Development, Ankara, 4/12/2014.
- (18) Manager, Ministry of Development, Ankara, 5/12/2014.
- (19) Planning expert, Ministry of Development, Ankara, 5/12/2014.
- (20) Manager, Ministry of Development, Ankara, 8/12/2014.
- (21) Manager, Ministry of Development, Ankara, 10/12/2014.
- (22) Planning expert, Ministry of Development, Ankara, 11/12/2014.
- (23) Manager, Ministry of Development, Ankara, 11/12/2014.
- (24) Planning expert, Ministry of Development, Ankara, 15/12/2014.
- (25) Planning expert, Ministry of Development, Ankara, 15/12/2014.
- (26) Manager, Ministry of Development, Ankara, 16/12/2014.
- (27) Manager, Ministry of Transport's General Directorate for Highways (Karayolları Genel Müdürlüğü, KGM, Ankara, 22/12/2014.
- (28) Senior scholar, Bilgi University, Istanbul, 2/10/2012.
- (29) Senior scholar, Koç University, Istanbul, 19/04/2013.
- (30) Senior scholar, Boğazici University, Istanbul, 13/10/2014.
- (31) Manager, Delegation of the EU to Turkey, Ankara, 23/09/2013.
- (32) Senior manager, Delegation of the EU to Turkey, Ankara, 23/09/2013.

**Appendix 6.** Multivariate regressions of the provincial per-capita public investment in transport and communication infrastructures: robust Fixed Effects estimates excluding Istanbul, Ankara, and Izmir (2004-2012).

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
AKP votes	0.0516** (0.0196)	0.0334* (0.0176)	0.0331* (0.0180)	0.0333* (0.0175)	0.0343* (0.0179)	0.0199 (0.0196)	0.0343* (0.0176)	0.0150 (0.0205)	0.0152 (0.0203)
CHP votes	-0.0334** (0.0159)	-0.0425*** (0.0152)	-0.0436*** (0.0165)	-0.0354 (0.0237)	-0.0483*** (0.0153)	-0.0425*** (0.0150)	-0.0415** (0.0164)	-0.0768*** (0.0275)	-0.0759*** (0.0275)
MHP votes	0.0285 (0.0317)	0.0362 (0.0284)	0.0354 (0.0294)	0.0370 (0.0286)	0.0939** (0.0430)	0.0510* (0.0293)	0.0378 (0.0302)	0.0854** (0.0428)	0.0855** (0.0429)
Kurdish votes	0.0136 (0.0199)	0.00274 (0.0186)	0.00200 (0.0196)	0.00349 (0.0188)	0.00149 (0.0194)	-0.0159 (0.0215)	0.00289 (0.0184)	-0.0249 (0.0246)	-0.0244 (0.0241)
El. Comp.	0.00840 (0.00866)	0.00253 (0.00850)	0.00195 (0.00844)	0.00265 (0.00849)	0.00107 (0.00877)	-0.00420 (0.00845)	0.00412 (0.0109)	-0.00424 (0.0115)	-0.00414 (0.0115)
Post-2008			1.157 (0.842)	1.131** (0.505)	1.450*** (0.497)	0.739 (0.460)	0.920 (0.562)	0 (0)	0 (0)
Post#AKP			-0.00249 (0.00982)					0.0264 (0.0186)	0.0255 (0.0181)
Post#CHP				-0.00771 (0.0141)				0.0463* (0.0243)	0.0447* (0.0231)
Post#MHP					-0.0532** (0.0205)			-0.0196 (0.0257)	-0.0198 (0.0256)
Post#Kurd						0.0242** (0.00978)		0.0396** (0.0164)	0.0389** (0.0157)
Post#El. Comp.							-0.00282 (0.00869)	0.00124 (0.0134)	0.00101 (0.0132)
Constant	1.052 (0.910)	-6.306** (2.728)	-6.175** (2.776)	-6.367** (2.758)	-5.857** (2.798)	-3.961 (2.734)	-6.398** (2.770)	-3.284 (3.006)	-3.295 (2.993)
Observations	624	624	624	624	624	624	624	624	624
R-squared	0.085	0.117	0.117	0.117	0.137	0.138	0.117	0.152	0.152
Number of id	78	78	78	78	78	78	78	78	78
Prov FE	yes	yes	yes	yes	yes	yes	yes	yes	yes
Year FE	yes	yes	yes	yes	yes	yes	yes	yes	yes
Controls		yes	yes	yes	yes	yes	yes	yes	yes
Prov*year FE									yes

Robust standard errors in parentheses: \*\*\* p<0.01, \*\* p<0.05, \* p<0.1. Controls include: provincial development index, manufacturing employment, education attainments, rural population, total population.