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Votes and Regional Economic Growth: Evidence from Turkey

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Summary. — In countries where governments' disproportionate power over the bureaucracy is coupled with a strong political polarization, 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 2004–12. 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.
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Key words — distributive politics, votes, political cleavages, regional economic growth, Middle-East, Turkey

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 monopolize public resources and economic power (Acemoğlu & 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 in Turkey has provided evidence suggesting that in polities lacking inclusive political institutions and where businesses are more reliant on state intervention – i.e., 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 expense of opponents. Yet, such hypothesis has not received extensive empirical attention. The existence of such gap in the literature is particularly puzzling considering the literal "explosion" of research exploring distributive politics (Golden & Min, 2013), i.e., how politicians selectively target 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 2004–12. Turkey's case is informative because the country has traditionally suffered from social and political polarization 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, & Rodríguez-Pose, 2011) by assessing whether, and to what extent, votes and partisan articulations may influence subnational economic performance. Last but not least, if in the last 15 years Turkey has undergone a significant number of institutional reforms aimed at strengthening the public governance, recent literature (Buğra & Savaşkan, 2014; Meyersson & 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 2 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 3 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 4 presents, and then discusses, the results. Section 5 eventually draws the discussion to a conclusion.

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2. EXPLORING THE LINK BETWEEN VOTES AND REGIONAL ECONOMIC GROWTH

(a) *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 20 years (Boix, 1998; Persson & Tabellini, 2003; Rajan & 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, 2008; Wood & Valler, 2004). In spite of those two separate bodies of literature, 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 & 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, & Testa, 2012; Tekeli & Kaplan, 2008), trade and industrial policy (McGillivray, 2004), infrastructure investments (Cadot, Röller, & Stephan, 2006; Castells & Solé-Ollé, 2005; Golden & Picci, 2008; Kemmerling & Stephan, 2008), investment incentives schemes (Yavan, 2012), poverty reduction programmes (Diaz-Cayeros, Estévez, & Magaloni, 2012; Fried, 2012; Kroth, Larcinese, & Wehner, 2014), international aid (Briggs, 2014), and the EU cohesion policy (Bouvet & Dall'Erba, 2010; Kemmerling & Bodestein, 2006).[1] Yet, in spite of this significant increase in the literature 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.[2] 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 neighboring aligned regions so as to stimulate private investments' relocations; (2) the restrainment of public investments for the development of key, necessary infrastructures; (3) and, last but not least, the mobilization of legislative and administrative mechanisms aimed at a favorable 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 studies 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 polarization, an important dimension that distinguishes moderate and highly polarized party-systems.

(b) *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 & Robinson, 2013b; Heper & Keyman, 2006). Political polarization 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).[3] 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, & Tuğal, 2009). Sharing similarities with other Southern European countries such as Italy and Greece (Lanza & Lavdas, 2000), interest politics and party politics have frequently showed strong links.

Furthermore, in line with the experience of other late-industrializing 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 & Armatli-Köroglu, 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

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