Turkey'sTransition, Discussion on Martin Raiser's Presentation

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- The glass is half-empty (aka Şevket Pamuk)
- The WB prefers to see as half-full
- Targeted audience is the policy makers
- Health and education sections are evidence based
- However, enterprise productivity and income distribution sections are not

- Trade liberalization and integration: CHECK
- Capital account liberalization?
- Current Account deficits : structural problem: (1) Import dependency of Exports, (2) Currency stability dependency
- Lower GDP growth rates with higher CA deficits

Figure: Current Account Deficits

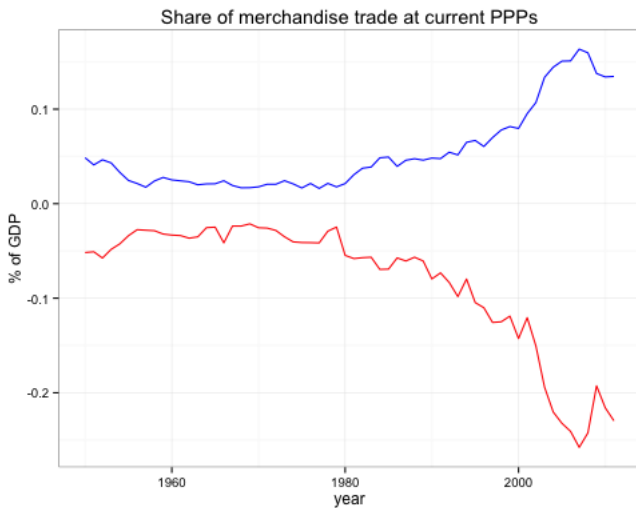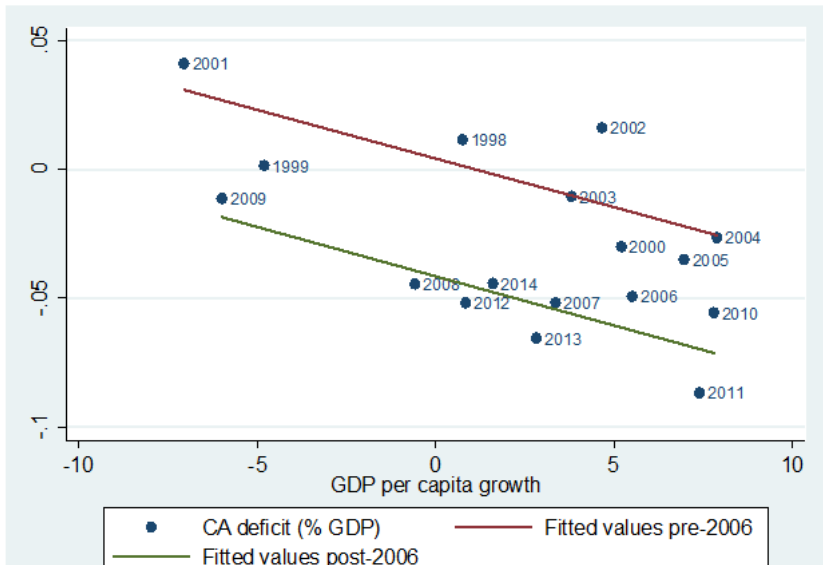Share of merchandise trade at current PPPs

Figure: Current Account Deficits

- Investment and capital stock expectations before integration and reality diverge
- Non-tradable sectors have become dominant
- Growth of FIRE (Finance, Insurance and Real Estate) sectors
- Banks' profits are equal to total ISO 500 profits
- A small-fish real estate developer could easily be in the ISO 500 list (floor is 200 million TL)

Figure: Capital Accumulation
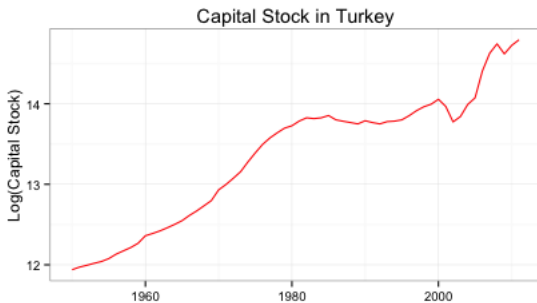
- 1980s and 1990s, lost decades for capital accumulation
- Financialization had disastrous effects on the economy
- Business Groups enjoy non-operating revenues twice as high as the operating revenues
- PUZZLE: steep slope in 2000s, as investment share is stagnant during the same decade!

Figure: Investment

Share of gross capital formation at current PPPs
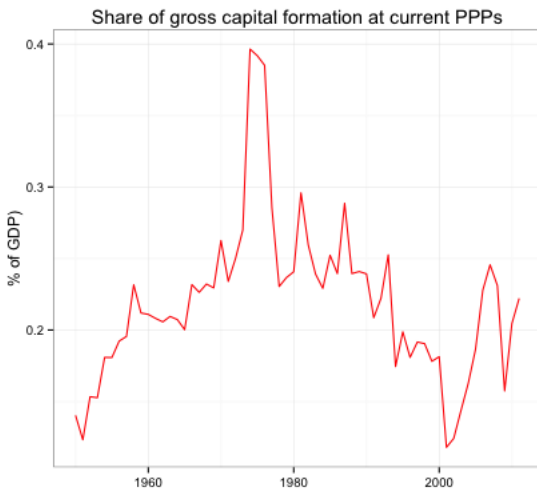
- Employment growth is not sufficient
- Working poor is widespread
- 10 $ per day criteria for middle class is just ...funny
- Agricultural seasonal workers or construction workers would be in the middle class

Figure: Labor Share

Median wage in the industry converged to the minimum wage!

- TURKSTAT's Household Budget Surveys and Survey of Living Conditions are not reliable
- The rich avoids the surveys and do not report their income
- The coverage of financial and rental income is less than % 1
- Just add one household with 10 million TL income, Gini coefficient rises by 0.02 (from 0.39 to 0.41). That's huge!

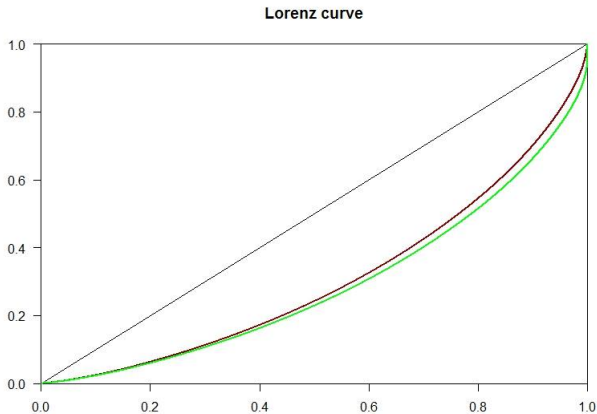Figure: Change in Gini with One Rich Household, 2009

Lorenz curve

Figure: Product Space of Turkish Exports

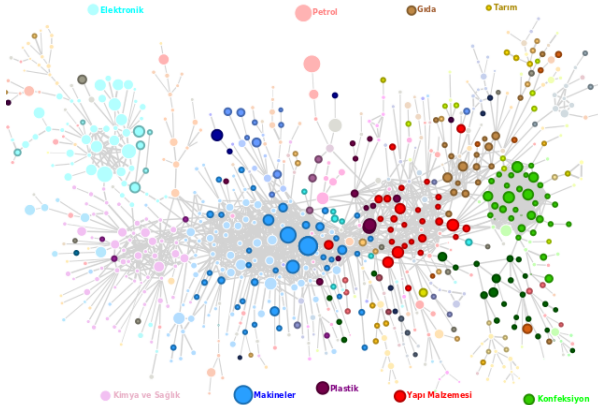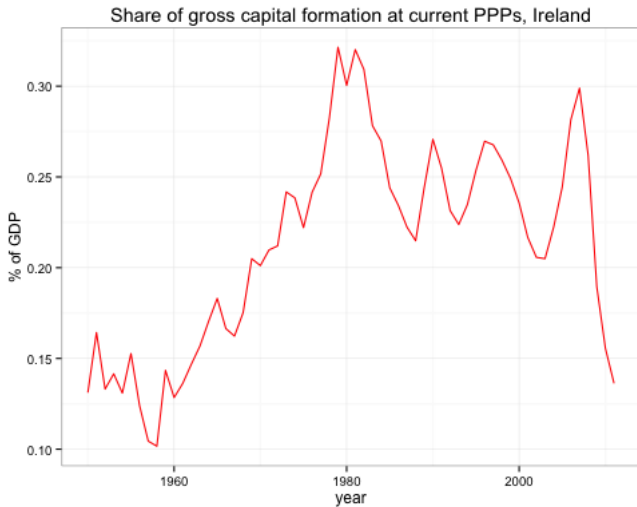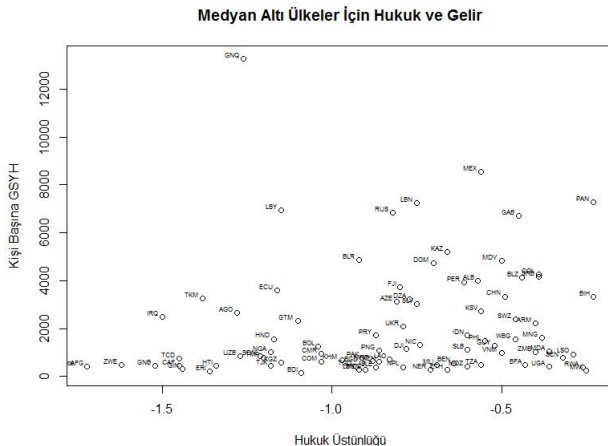Figure: Ireland

Share of gross capital formation at current PPPs, Ireland

Ireland kept investing % 25 of GDP throughout almost three decades.

- To good to be true!
- There are many problems: measurement, objectivity,
- The most critical are the threshold and the cost problem

Figure: Rule of Law and GDP per capita, Below Median Countries

Medyan Altı Ülkeler İçin Hukuk ve Gelir

R-square is 0.02 and the regression model is insignificant

Ten Countries with the Highest Institutional Correlation with Turkey
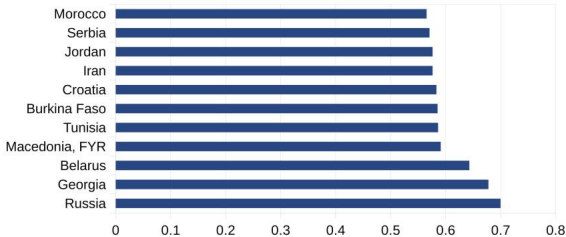
Source: World Justice Project

Figure: Institutional Quality Peers

Source: http://erikmeyersson.com/2014/05/03/turkeys-institutions-problem/

- In order to reach Norway's state capacity Turkey needs 50 years
- The tax revenues should be about % 67 percent of the GDP (the linear extrapolation from the level in 1960, which was % 12)
- Almost impossible!

Coordination of Skill Upgrading

- Productivity differential between university graduates and the rest: the ratio is more than 2.
- The share of university graduates is less than % 25
- Assume that employment grows by % 3 and make the university graduates share % 45 in 10 years.
- Ceteris paribus, annual GDP growth will be on average % 5

Sort of Conclusion

- Investment and Exports are not sufficient
- Income distribution is unequal
- Civil and political rights are missing
- Institutions are weak!
- I would be cautious to recommend Turkey as a role model!