## ECONOMICS
### *& Sociology*

# EMPIRICAL LINKAGES BETWEEN DEMOCRACY AND ECONOMIC GROWTH: THE CASE OF TÜRKİYE

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**ABSTRACT**. According to the Lipset modernization theory, as a nation's wealth increases, so does its probability of maintaining a democratic system of government. However, some researchers believe that the correlation between democracy and economic growth is inverse, especially in developing countries. This is due to the fact democracy can be a costly endeavour, and it may not be possible to achieve economic growth and further democratic processes simultaneously. Finally, others argue that the more developed democracy is, the greater positive impact it has on economic growth. Thus, the aim of this study was to investigate the possible relationships between democracy and economic growth in Türkiye, using annual data from 1996-2021. The results indicate that democracy has a positive influence on economic growth in the long term in Türkiye. Contrary to Lipset's hypothesis, economic growth does not appear to have a significant impact on improving democratic systems. The results show that not only this year's democracy has a positive effect on this year's economic growth, but also improving of this year's democracy also has a positive effect on next year's economic growth. Therefore, it may be concluded that the enhancement of democratic institutions in Türkiye would to be beneficial for the economy and would not impose a significant financial burden on the nation. However, no causal relationship has been found in the short term between the democracy index and economic growth in Türkiye.

## Introduction

In the modern world, democracy and economic growth are at the center of the political and economic agendas of many countries. These two concepts are intricately linked and their relationship has been explored in numerous academic studies. For instance, Acemoglu et al. (2005) and Heo & Tan (2001) argued that the presence of democratic institutions can contribute to better economic outcomes by providing a framework for upholding property rights and fighting corruption. Conversely, Barro (1996) investigated the hypothesis that economic growth can enhance democratic stability by fostering the development of a middle class that demands

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political rights. Indeed, issues such as the question of whether democracy promotes economic growth, the manner in which economic growth affects democracy, and the factors through which these two processes affect each other have attracted the attention of researchers for a long time (Gerring et al., 2005; Przeworski et al., 2000).

This study seeks to contribute to the existing literature by conducting an assessment of the bi-directional relationship between democracy and economic growth in Türkiye. It presents an analysis of the effects of economic performance on democratic governance in the country and, in turn, the influence of the country's democratic governance on economic performance.

Based on the review of existing literature, the following null and alternative hypotheses have been formulated for testing:

Null Hypothesis ($H_0$): Higher levels of democracy in Türkiye are not positively correlated with economic growth.

Alternative Hypothesis ($H_1$): Higher levels of democracy in Türkiye are positively correlated with economic growth.

Null Hypothesis ($H_0$): There is no causal relationship between the level of democracy and economic growth in Türkiye.

Alternative Hypothesis ($H_1$): There is a causal relationship between the level of democracy and economic growth in Türkiye.

Null Hypothesis ($H_0$): Economic growth in Türkiye does not positively affect the development of democratic institutions and practices.

Alternative Hypothesis ($H_1$): Economic growth in Türkiye positively affects the development of democratic institutions and practices.

The main purpose of the study is to empirically examine the relationship between democracy and economic growth in Türkiye. In this context, various research will be conducted to deeply understand the interactions between these two important social phenomena. Firstly, it is aimed to comprehensively review the existing studies in the literature. This review will highlight theoretical frameworks that address the relationships between democracy and economic growth, particularly in the case of Türkiye. It aims to reveal that democracy and economic growth are complex structures that are not only based on numerical data, but also shaped by social and political processes.

In the second step of the study, a conceptual model will be created. This model was developed to explain how the two variables can affect each other and will guide the empirical analyses. While the effect of the level of democracy on economic growth is at the center of the model, it is also taken into account that this relationship can be reciprocal. Thus, hypotheses will be put forward to explain the effect of Türkiye's democratization process on economic development.

The data collection and analysis process was planned as one of the most critical stages of the study. At this stage, both quantitative and qualitative data sources will be used and the historical and current interactions between democracy and economic growth in Türkiye will be analyzed. In particular, the political and economic transformations experienced in recent years will be examined in detail with the help of empirical analyses.

The evaluation of the findings in both national and international contexts aims to bring the results of the study to a broader perspective. The relationship between democracy and economic growth is a subject discussed not only for Türkiye, but also on a global scale. Therefore, the findings of the study will be compared with the global literature and the inferences to be made on the example of Türkiye will provide results that may be meaningful for other countries as well.

Finally, the study aims to provide policy recommendations. In the light of the findings, applicable recommendations will be presented to policy makers in Türkiye to both strengthen

democratic governance and promote economic development. These recommendations may provide important insights for Türkiye to achieve its long-term sustainable development goals.

## 1. Definitions and various approaches on democracy

It can be stated that there is a technical difference between the definitions of economic growth and democracy. Since the concept of economic growth can be formulated, there is a generally accepted consensus. However, there is no such consensus on the definition of democracy. There are many different definitions of democracy. Although democracy is perceived to be a simple concept, it continues to be discussed and maintains its importance (Dahl, 1998, 3). The types of democracy, the criticisms directed at the concept and especially what it actually is, rather than what it should be, have been among the main topics of debate.

The understanding of democracy has evolved greatly since ancient Greece. Liberal democracy is the most common type of democracy, while the other main types are classical, developmental, protective and public democracy. Robert Dahl, one of the leading political scientists, preferably uses the term pluralism rather than democracy. Democracy has historically had a variety of perspectives from Ancient Greece to the present (Nwogu, 2015). While modern democracies are generally based on representative democracy, democracy in ancient Greece was open only to male citizens,. Democracy in ancient Greece was criticized by Plato, while mostly referring to propertyless citizens (Heywood, 2019, 183). However, the city-state of Athens praised its system for allowing citizens to participate. Democracy is a concept open to different perspectives, and this diversity has led to the emergence of different versions of democracy (Heywood, 2019, 186). According to Robert Dahl, it may be necessary to question the assumption that democracy began in Ancient Greece and Rome, but he acknowledges that democracy was firmly established in Athens and Rome in 500 BC, and sees this system as an important example of Athens' Classical Greek democracy. Although the origins of classical democracy date back to Ancient Greece - particularly Athens (Heywood, 2019, 183), its general dimensions are open debate, direct participation and majority principle (Herbst, 1991, 228). From ancient history until the 17th century, democracy was generally associated with citizens gathering in assemblies or public places and making decisions about their political unit (Held, 2006, 92-93). Since the 17th and 18th centuries, democracy has developed on the basis of the principle of citizenship and direct representation, as well as the protection of God-given natural rights against external interference (government, state, authority). One of the important thinkers of this approach, conceptualized as protective democracy, is the liberal philosopher John Locke (Heywood, 2019, 186). According to John Locke, government is obliged to protect natural rights that come from God, and its legitimacy depends on the protection of natural rights. The natural rights in question are life, liberty and property. Furthermore, according to John Locke, the most important of these rights and the one that encompasses the others is the right to property (Ebenstein & Ebenstein, 2000, 430-431). In addition to individual-oriented protective democracy, the type of democracy that prioritizes the individual and society together is developmental democracy. Developmental democracy, of which Jean Jacques Rousseau is an important representative, is based on the concept of "general will", which is formed by individuals but is more than the sum of their wills. The general will is the will of the collective whole of individuals, in other words the "common good" (Heywood, 2019, 188-190) and (Held, 2006, 92).

Some researchers argue that democracy is merely a political regime, others perceive it as a way of life or a value system. Some associate democracy with direct participation of the people, while others defend democracy as a form of government that takes place through representatives. While some define democracy as a system that protects individual rights and

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freedoms, some see democracy as a mechanism that ensures social equality and justice. Some limit democracy at the national or local level, while others accept democracy as a global or universal ideal (Laurence, 2015). Democracy is a political system based on the principle of popular sovereignty. In this system, the powers of the state and government are based on the will of the citizens known as the voters. While according to (Shapiro et al., 2023), there is no certain consensus on the definition of democracy. Therefore, democracy has been interpreted and criticized in various ways by different academic disciplines, methodologies and ideologies. Although the basic meaning of democracy is accepted as the rule of the people or the majority, there is much debate about how this meaning is to be implemented, apart from its etymological roots as a combination of the words "demos" (people) and "kratos" (power, rule) (Heywood, 2019, 183), what values it is based on, what institutions it requires and what consequences it has.

The Age of Enlightenment, the positive expectations of democracy, liberalism and free market economy ended with World War I in the first quarter of the 20th century, and liberal democracy faced a strong challenge. The concept of "proletarian democracy/socialist democracy" as an alternative to liberal democracy came to the agenda with the Bolshevik Revolution in the Russian Tsardom and the loss of power of liberal democracy both politically and economically. According to Vladimir Lenin, the leader of the Bolshevik Revolution, liberal bourgeois democracy does not truly reflect democracy. According to Lenin, only a socialist revolution can establish a democracy that truly reflects the majority. A number of conditions are necessary for the realization of proletarian or socialist democracy. These are the replacement of the bourgeois parliamentary state by workers' soviets, the transition to a planned economy, the inclusion of the population in the state administration through registration, and the workers' party taking a leading (avanguard) role in terms of the continuity of the revolution (Pateman, 2020,538). As it is understood, Lenin added the class factor to democracy and put forward an alternative approach to liberal democracy. As Pateman remarks, "Leninist thesis that democracy is a paradoxical concept, one containing inherent contradictions. It can realise its true form, the rule of the working masses, only through a process of self-transcendence" (Pateman, 2020,544). In other words, democracy can be used as a tool for the transition from socialism to communism, a classless social order.

According to US President Woodrow Wilson, who lived in the same period as Lenin and contributed to the shaping of the international system after World War I, a liberal world and liberal democracy are indispensable elements for peace. Among the fourteen principles Wilson proclaimed on January 8, 1918 were open diplomacy, freedom of navigation upon the seas, removal of trade barriers and the establishment of the League of Nations, which are indispensable for a liberal democratic international system (Kissinger, 1995, 225). Wilson thus proposed a more democratic hegemony based on the principles of common security and open diplomacy, not based on the balance of power system, as opposed to the European type of diplomacy and hegemony shaped by the balance of power and secret diplomacy, which was on the verge of change. Undoubtedly, the new order underlined by liberal democratic principles will be an American-type hegemony/order. Wilson's loss in the US elections, the exclusion of the US from the League of Nations, the failure to resolve the problems at the Paris Peace Conference, the failure of peace efforts in the interwar period such as the Treaty of Lokarno and the Briand-Kellogg Pact, and the spread of fascism around the world following the Economic Crisis of 1929 brought democracy to face a crisis (Kissinger, 1995, 249-318). World War II turned into a war between democracy and authoritarian forms of government from another perspective. In World War I, the dispute between liberal democracy and socialist democracy temporarily turned into an alliance, and Western states and the Union of Soviet

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Socialist Republics (USSR), the representative of socialist democracy, formed an alliance against fascism and Nazism.

The defeat of Nazism and fascism pitted the two powerful states of World War II, the USA and the USSR, against each other, with the USA positioning itself as the leader of the liberal and democratic world against the "enemy of freedom" USSR. In 1945, after Nazism had lost power and the temporary alliance of liberal democracy with socialist democracy (in Popper's words, communist dictatorship) had ended. The historian of science Karl Popper published his book "Open Society and Its Enemies". According to Popper, Nazism and communism are the two enemies of liberal democracy and open society. According to (Popper, n.d.), the essence of democracy is that the people have the opportunity to control their leaders and remove them without revolution. While (BLOKLAND, 2006) noted that democracy is not a value in itself. That is why (Popper, n.d.) argue that most people are not interested in politics or are not knowledgeable enough. Also, people are easily manipulated by propaganda and emotions. Popper also argues that there is no such thing as the common good, only conflicting interests and values. According to (Popper, n.d.), the people and institutions of a democratic society, which he calls an open society, must have the critical spirit that characterizes the natural sciences. This critical spirit is what Popper calls critical rationalism. This attitude includes openness, curiosity, doubt, criticism and self-criticism. While Popper believed that democracy was the best form of government for both moral and practical reasons, he further argued that democracy was superior to other regimes because it allowed conflicts to be resolved peacefully and rationally and mistakes corrected. He also claimed that democracy could support economic growth by promoting freedom, openness and criticism (Medearis, 2013).

People's democracy is a type of democracy in line with the Soviet model, which the USSR established after World War II in the actors in its sphere of influence, particularly in Eastern European states. Criticizing liberal democracy with the discourse of "bourgeois-type democracy", the USSR is the "real" democracy compatible with socialism (Heywood, 2019, 192). According to Marxist economist Eugen Varga, one of the most important figures in the concept of popular democracy, popular democracy is not only a new type of democracy, but also "different from anything we have ever known" and "something completely new in human history" (Shilling, 1951, 21). People's democracy, which Varga considered as a new political model, served the USSR to establish its ideological leadership according to Marxist-Leninist doctrine (Rosa, 1949, 489). If the Cold War period is read in terms of the power struggle between liberal democracy and popular democracy, it can be argued that the Cold War ended with the victory of liberal democracy. Indeed, US political scientist Francis Fukuyama wrote about this reality in his article titled "The End of History". According to Fukuyama's assessment, the end of the Cold War is not only the victory of Western liberal democracies, but also the final stage that Western liberal democracy will reach for humanity. Therefore, the end of the Cold War also means the end of history (Fukuyama, 1989, 3-4). Undoubtedly, Fukuyama's optimistic analysis was reversed in the following years and liberal democracy's promise to bring democracy to Iraq ended in chaos, as seen in the US invasion of Iraq.

Apart from the above-mentioned "inter-democratic" struggles and classical democracy classifications, there are also other definitions/approaches to democracy. For example, German political scientist Jürgen Habermas's "Deliberative Democracy" is one of these different conceptualization of democracy. According to the deliberative democracy approach, every individual who makes up the society should share their views freely, free from prejudices and inclusive. Democracy can be fully achieved in an environment open to communication, where individuals with equal status and free to defend any discourse are present. In this way, discourse will be at the center of politics, legally organized and legally institutionalized (K. Olson, 2011). In addition to deliberative democracy, the concept of cosmopolitan democracy is also

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noteworthy in transnational dimension of globalization. According to David Held, one of the inevitable consequences of globalization is the trivialization of borders. This situation has undoubtedly affected democracy, and the concept of democracy has gained a global character that transcends national borders. Cosmopolitan democracy involves regional, national, local and global negotiation processes to solve the common problems of the globalizing world (Held, 1997). In addition to these views, radical democracy, which aims to unite different areas of struggle (anti-racism, anti-sexism, anti-Semitism, anti-capitalism, etc.) in connection with socialism, is also among the important types of democracy (Mouffe & Holdengräber, 1989, 42). In other words, radical democracy, as Mouffe and Laclau put it, aims to establish an organised struggle against domination based on inequality and subordination relations. Thus, the struggle against inequality finds meaning on the basis of radical democracy and radical pluralism (Laclau & Mouffe, 2001).

Among the most widely referenced definition by American social scientists is that of Joseph Schumpeter definition. According to (Schumpeter, 2008), Democracy refers to an institutional arrangement in which individuals obtain decision-making authority through competitive struggle for popular vote for the purpose of reaching political decisions. Considering Weber's work, Schumpeter's definition of democracy cannot be considered truly new (BLOKLAND, 2006). Weber distinguished between direct and representative democracy and was skeptical of both forms. Weber thought that direct democracy was impractical and an undesirable method in modern societies, and he argued that representative democracy is not a pure or ideal form of democracy, but a mixed type combining democracy with elements of oligarchy or aristocracy (Breuer, 1998) and (Kalyvas, 2008). Schumpeter defined democracy not as a system of government based on the will or consent of the people, but as a method of electing political leaders through free and fair elections. Schumpeter emphasis that democracy is not a value in itself, but a way of achieving other values such as peace, freedom and prosperity and he also argued that democracy was compatible with both capitalism and socialism, but would eventually lead to decline of capitalism and the rise of socialism (Elliott, 1994), (Medearis, 2013).

However, when we consider the relationship between economic growth and democracy, Weber argued that democracy is not a necessary or sufficient condition for economic growth, but rather a contingent and historical result of the development of capitalism and rationalization. He also argued that democracy can have both positive and negative effects on economic growth, depending on the quality and effectiveness of political institutions, as well as the culture and values of society (Schumpeter, 2008) and (Kurz, 2021).

Schumpeter challenged the classical liberal view that democracy is the rule of the people or the expression of the common will. Schumpeter also proposed an elitist and minimalist conception of democracy as a competitive method for electing political leaders. He also suggested that democracy could foster economic growth by fostering innovation and creative destruction, but could also jeopardize it by increasing social demands and public spending (Legrand & Hagemann, 2017) and (Medearis, 1997).

From a more fresh perspective, (Claassen et al., 2024) democracy is a complex system that not only involves electoral processes, but also emphasizes the importance of protecting individual rights and ensuring institutional checks and balances.

(Claassen et al., 2024) define liberal democracy through eight different components. First, it includes freedom of expression, the right of individuals to criticize the government, and the freedom of the media. Freedom of association includes the establishment of political parties, the right to protest, and participation in civil society organizations. Universal suffrage requires that all adult citizens have the right to vote, but also considers elements such as voter eligibility and political tolerance. Another important component is the principle of elected decision-

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makers. This principle argues that important decision-makers should be elected by the people, not by appointed or non-political authorities. In addition, free and fair elections are a fundamental element of democracy; it is essential that elections are held fairly and their results are respected. Judicial restrictions on the executive branch of the judiciary are also an important element. It is emphasized that the courts should have the authority to overturn government decisions that are deemed illegal. Similarly, legislative restrictions on the executive branch include the parliament's authority to oversee and question the actions of the government. Finally, equality before the law guarantees that all citizens, regardless of their political views, have equal legal rights. While based on (Scudder, 2023), democracy is understood as a system in which citizens have a meaningful say in the laws and decisions that govern them. The main contribution of the deliberative democracy model is its focus on the importance of inclusive communication, even when there are disagreements among citizens. This model emphasizes that democratic legitimacy stems from processes that ensure that all affected individuals participate in shaping collective decisions. (Scudder, 2023) argues that democracy is not limited to the practice of deliberation (formal discussions and dialogues) alone, but is based on a broader deliberative ideal. This ideal includes various forms of communication and interaction that contribute to the democratic decision-making process. In this context, it is important to recognize that non-deliberative practices, such as protests and partisanship, can also enhance the overall deliberative quality of a political system. Some papers also stress on institutions similar to (Acemoglu et al., 2005), (Acemoglu et al., 2019). For example (Carpenter, 2023) emphasizes that processes and institutions such as petitions, protests, advocacy campaigns, and local political intermediaries can democratize agendas by bringing new issues to the agenda and allowing marginalized voices to be heard. He also argues that the success of these efforts should be evaluated not only in terms of immediate policy changes, but also in how they change public discourse and the political agenda over the long term. (Carpenter, 2023) argues that the concept of "agenda democracy" is critical to understanding the dynamics of democracy. Democracy is not limited to the final choices presented to voters; it is also about who sets the agenda and what issues are deemed worthy of public debate. In this context, it is important to recognize that many democratic regimes have institutional mechanisms that can render agendas undemocratic by limiting the issues that can be discussed or acted upon.

As can be understood from the above definitions and approaches, there are different definitions and approaches to democracy. Democracy, which has different dimensions ranging from political representation to the importance of property rights, needs to be addressed at the normative and economic level in international relations.

## 3. Relationship between democracy and economic growth

Despite democracy usually being reduced to political representation and suffrage, economic dimensions of democracy like economic growth, which is defined as the situation in which the total production of goods, services and income in the economic activities of a country or region increase in a given period compared to the previous period. As Iversen underlines, combining capitalism with democracy, which is one of the main consequences of inequitable growth, is one of the important problematics of the economy-politics relationship. For while the former creates inequality in property and income distribution, the latter aims to divide power in accordance with equality (Iversen, 2006, 601). According to Robert Dahl, capitalism and democracy are like a couple that are in conflict with each other but do not want to be separated. Dahl argues that capitalism and democracy both support each other and capitalism harms democracy. According to Dahl's first thesis, the capitalist economy can only take place in states with polyarchic democracy (democracy in which pressure and interest groups are active in the

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political process). There is also a relationship between market capitalism and the formation of democratic institutions. In the long run, market capitalism has led to economic growth and economic growth provides a favourable environment for democracy (Dahl, 2021,166-168). According to Dahl's second thesis, market capitalism harms democracy. In this framework, democracy and market capitalism try to limit each other. For example, in 1840, the market economy was fully established in the United Kingdom, and this was reflected in politics, philosophy and law. Accordingly, democratic representation developed in the United Kingdom and suffrage was introduced in 1867 and 1884. The development of suffrage and political representation brought criticism and opposition to the existing economic system, and opponents of laissez faire economy expressed their opinions. In addition, the structural inequality created by market capitalism limits the democratic potential of polyarchic democracy (Dahl & Shapiro, 2020).

(Acemoglu & Robinson, 2013) explain this dilemma by prioritizing the construction of democratic institutions in the process of capitalism and democratization. According to Acemoglu and Robinson, while extractive economic and political institutions are difficult to sustain, inclusive economic institutions that defend property rights, protect property rights with laws, prioritise equal conditions of competition, and invest in new technologies and skills, are more successful than the former in achieving and sustaining prosperity. In other words, growth with authoritarian foundations cannot be long-lasting (Acemoglu & Robinson, 2013). Of course, this is not easy to achieve. According to Acemoglu and Robinson, the environment for the establishment of inclusive democratic-economic institutions emerges in the dynamic relationship process in which the state and society balance each other. According to Acemoglu and Robinson, this is not an easy process; the passage through the "narrow corridor" between the strong society and the state depends on the relationship between the strong state and the strong society. In this respect, according to Acemoglu and Robinson, the passage through the narrow corridor depends on a formula that lies between the Hobbesian Leviathan and the Lockian liberal non-interventionist state (Acemoglu et al., 2019).

Apart from aforementioned democracy-economy relation, there are three main approaches to the relationship between democracy and economy. One of them is the "modernization theory" or "Lipset's modernization theory" discussed by (Lipset, 1959). Seymour Martin Lipset stated that democracy directly results from economic growth and that "the wealthier a nation, the better its chances of maintaining democracy".

According to Lipset, the modernization process is associated with factors such as economic growth, education, urbanization, and social change. As these factors increase, democratic values are expected to spread within society, strengthening demands for democracy. Lipset's modernization theory is a prominent framework in social sciences that explains the relationship between democracy and economic development. Seymour Martin Lipset argues that modernization promotes democracy by fostering social and economic conditions conducive to democratic governance.

(Huntington, 1996) has a perspective that looks at this issue as a process. According to Huntington, corruption that emerges in the process of economic development weakens the institutions of the political system and hinders the building of democracy. According to Huntington, in order for the institutions of the political system to be consolidated and democracy to be sustainable, corruption must first be fought and a balance between the institutions must be established. Therefore, Huntington, focusing on the institutions of the political system, envisages a process in which democracy building will take place after economic development. According to Huntington, preventing corruption and strengthening institutions are critical to the sustainability of democracy. However, based on assessment of China, (De Mesquita & Downs, 2005) believes that economic development does not lead to

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democracy. Because authoritarian regimes with autocratic rule plan to show people that it is possible to benefit from economic development without political liberalization.

Lipset modernization theory argues that democracy develops with processes of enrichment and modernization. Lipset states that "the richer a nation is, the better its chances of maintaining democracy". Lipset argues in his work, "Some Social Requisites of Democracy: Economic Development and Political Legitimacy," that economic development is critical to the establishment and sustainability of democratic regimes. In his famous words, "The more prosperous a nation is, the greater its chances of sustaining democracy" (Rose, 2016) and (Banerjee, 2012). This theory argues that economic growth fosters conditions such as higher levels of education, urbanization, and improved communications networks, which in turn support the development and maintenance of democratic institutions. According to this theory, economic growth promotes democracy and is a prerequisite for democratic development. However, democracy is an expensive incentive for developing countries. In this context, the concepts of democracy and economic growth are two conflicting processes, and it has been emphasized that economic growth and democratic processes cannot be carried out simultaneously (Usta, 2017) at least for developing countries. Democracy has an economic burden on the country that weakens economic growth. For example, based on the study of (Barro, 1996), (Tavares & Wacziarg, 2001), (You, 2011) democracy has a negative impact on economic growth. (Narayan et al., 2011) found that an increase in democracy has a negative impact on real income. We can say that there is no general consensus on this issue and (Ghardallou & Sridi, 2020) stress on the fact that certain democratic processes can lead to inefficiencies and slowed growth. Therefore, it can be summarized that there is a negative relationship between democracy and economic growth. We can give the impression that economic growth has increased democracy in the country, which means that this year's economic growth may have a positive effect on the growth of democracy next year, but it may have a negative effect this year. If we denote economic growth with "g" and democracy with "DI", Lipset's modernization theory can be modelled in two different ways ((eq1) and (eq2)):

$$g_t = a + b(DI_t); \qquad b < 0 \qquad (1)$$

(eq1) explains that because of the economic burden of democracy, there is a negative relationship between economic growth in t and democracy index in t year. While economic growth has positive effect for democracy of next years:

$$DI_t = a + b(g_{t-1}) + ; \qquad b > 0 \qquad (2)$$

Here DI denotes the level of democracy; g represents economic growth.

The Lipset hypothesis has been challenged by (Renelt, 1991), (Cheibub et al., 1996), (Przeworski & Limongi Neto, 1997) (Acemoglu & Robinson, 2001). (Renelt, 1991) stress that political liberties seem to have a somewhat favorable relationship with economical development. These results would be in line with the theoretical hypothesis that growing levels of uncertainty have an impact on capital formation and economic expansion. (Acemoglu & Robinson, 2001) argue that one possible reason why wealthier societies have had greater success in consolidating democracy is the relationship between volatility and coups, as well as their economic stability. In this context, the fragility of democracy is largely due to its vulnerability to economic crises. According to (Acemoglu & Robinson, 2001) (Acemoglu & Robinson, 2013), democracy and inclusive political institutions are crucial to supporting sustainable economic growth. Democratic systems foster economic dynamism, innovation and

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long-term prosperity by providing equal conditions and ensuring the protection of individual rights and freedoms. Therefore it can be say that there is a positive relationship between economic development and democracy. According to (Przeworski & Limongi Neto, 1997) the reason for the relationship between economic wealth and democracy is simple: once a country is under democratic rule, it has a much better chance of remaining democratic, if it is rich. On the other hand, poor countries often revert to autocratic regimes.

(Acemoglu & Robinson, 2001) stated that in consolidated democracies, such as the OECD economies, the threat of coups is not important, so taxes are determined by the usual trade-off for the median voter between transfers and deadweight losses. In contrast, in highly unequal economies, fiscal policy is more volatile because as a society fluctuates between different political regimes, the amount of fiscal redistribution changes. For example (Gavin & Perotti, 1997), show that fiscal policy in Latin America is much more variable than that in Europe. Therefore, democracy has positive effect on economic growth. This theory can be modelled as follows:

Increasing democracy has a positive effect on economic growth:

$$g_t = a + b(DI_t); \qquad b > 0 \qquad\qquad (3)$$

The increase in democracy this year has a positive effect on the economic growth of the next year:

$$g_t = a + b(DI_{t-1}); \qquad b > 0 \qquad\qquad (4)$$

On the other hand, some researcher such as (De Haan & Siermann, 1996) and (Helliwell, 1994) stated that the relationship between democracy and economic growth is not a systematic relationship between democracy and economic growth. Therefore, we set four different model to test four main models. The four Models can be summarised as follows:

| | | |
|---|---|---|
| Model 1($eq1$): | $g_t = a + b(DI_t);$ | $b < 0$ |
| Model 2($eq2$): | $DI_t = a + b(g_{t-1});$ | $b > 0$ |
| Model 3 ($eq3$): | $g_t = a + b(DI_t);$ | $b > 0$ |
| Model 4 ($eq4$): | $g_t = a + b(DI_{t-1});$ | $b > 0$ |

Model 1 and model 3 are same model and the sign of coefficient of b needs to be justified. In the methodology part of this study, the ARDL (Distributed Autoregressive Lag) model will be used to analyze the relationship between democracy and economic growth. The ARDL model is preferred because it can be applied regardless of whether the time series is stationary (I(0) or I(1)). In addition, this model offers the opportunity to test both short-term and long-term relationships in the same framework. Firstly, we will examine the long-term relationships between the democracy index (DI) and economic growth (g) and evaluate how these two variables affect each other. The ARDL bounds test will determine whether there is a long-term equilibrium relationship and test the existence of a permanent relationship between democracy and economic growth. In addition, short-term dynamics such as the effect of economic growth one year ago on the current level of democracy will be analyzed using lagged independent variables.

In addition, a causality analysis will be conducted to determine the causality relationship between the variables. This analysis will determine the direction of the relationship between democracy and economic growth. In other words, causality tests will be applied to see whether

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economic growth triggers democracy or democracy triggers economic growth. Thanks to these tests, it will be possible to determine not only whether the interaction between two variables is statistically present, but also which variable precedes the other. In this context, the causal relationships between democracy and economic growth in both the short and long term will be revealed.

We can express the VAR Granger Causality/Block Exclusivity Wald Test in a general mathematical framework for the four models. Each model addresses the relationships between the democracy index ($DI$) and economic growth ($g$) in different lags and directions. The Granger causality test and VAR model for the our baseline models are presented below[1]:

$$g_t = \alpha_1 + \sum_{i=1}^{p} \beta_{1i} g_{t-i} + \sum_{i=1}^{p} \gamma_{1i} DI_{t-i} + u_{1t}$$

$$DI_t = \alpha_2 + \sum_{i=1}^{p} \beta_{2i} g_{t-i} + \sum_{i=1}^{p} \gamma_{2i} DI_{t-i} + u_{2t}$$

The Granger Causality Test is used to determine the causal relationship between democracy index and economic growth. The test is performed as follows:

**Effect of Economic Growth on Democracy:**

- Null Hypothesis: $\gamma_{1i} = 0$ (Past values of economic growth do not affect the democracy index).

- Alternative Hypothesis: $\gamma_{1i} \neq 0$ (Past values of economic growth affect the democracy index).

**Effect of Democracy on Economic Growth:**

- Null Hypothesis: $\beta_{2i} = 0$ (Past values of democracy index do not affect economic growth).

- Alternative Hypothesis: $\beta_{2i} \neq 0$ (Past values of democracy index affect economic growth).

The Block Exclusivity Wald Test tests whether a variable is significant in the model. For example, to test the effect of economic growth on democracy:

- Null Hypothesis: $\gamma_{1i} = 0$ (Economic growth lagged values are not significant in the model).

- Alternative Hypothesis: $\gamma_{1i} \neq 0$ (Economic growth lagged values are significant in the model).

For the four models, both VAR Granger Causality and Block Exclusivity Wald Tests will be used to test the causal relationships between democracy and economic growth and the effects of these two variables on each other. These tests will reveal which variable precedes the other and what the direction of causality is.

## 4. Data and methodology

This study uses annual time series for the period 1996–2021 to estimate the linkage between democracy and economic growth. The data were obtained from various sources, such as the Economist Intelligence Unit and the World Bank. The economic growth was measured

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[1] We use one lagged in the case of model 2 and model 4.

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with the real GDP ratio which was obtained from the World Bank, and the democracy index was calculated with the weighted average of vested interests, accountability of public Officials, human rights, and freedom of association which were obtained from Economist Intelligence Unit. Table 1 shows our variables:

Table 1. Variables

| Variables | Benchmark | Acronym |
|---|---|---|
| economic growth | Annual percentage growth rate of Real GDP | $g$ |
| democracy index | weighted average of vested interests, accountability of public Officials, human rights, and freedom of association | $DI$ |

The data in the table 2 include summary statistics for Türkiye's economic growth (g) and democracy index (DI) variables. The average of the economic growth rate is 4.85%, while the average of the democracy index is 0.41. The median value for the growth rate is 5.92%, which is higher than the average. This indicates that some periods of negative growth have an impact on the data. The median of the democracy index is 0.4345, which is close to the average. While the highest value of economic growth is 11.35% and the lowest value is -5.75%, indicating a large fluctuation, it is observed that the democracy index varies in a narrower range, with the highest value being 0.4755 and the lowest value being 0.25. When the standard deviation values are examined, it is understood that the growth rate is quite volatile with 4.52, while the democracy index is more stable with 0.0613. The skewness value was calculated as -0.85 for economic growth and -0.65 for the democracy index, which shows that both variables are negatively skewed, that is, low values are more common. Kurtosis values are close to 3 for both variables, indicating that growth and democracy index show a distribution close to normal distribution. According to the Jarque-Bera test, it can be said that economic growth and democracy index do not contradict the normal distribution assumption, that is, these distributions are quite close to normal distribution. The data obtained from 26 observations reveal that there are significant fluctuations in Türkiye's economic growth, that there are negative growth periods, while the democracy index is relatively stable.

Table 2. Summary statistics of variables

| | g | DI |
|---|---|---|
| Mean | 4.848 | 0.408 |
| Median | 5.923 | 0.434 |
| Maximum | 11.353 | 0.475 |
| Minimum | -5.750 | 0.250 |
| Std. Dev. | 4.515 | 0.061 |
| Skewness | -0.848 | -0.652 |
| Kurtosis | 3.123 | 2.706 |
| Jarque-Bera | 3.132 | 1.940 |
| Probability | 0.2087 | 0.379 |

### 4.1. Unit root test and ARDL bound test

The unit root represents the non-stationarity of a time series. Stationarity means that the statistical properties of the time series over time remain constant. If a time series contains a unit root, that is, it is not stationary, this indicates that the time series may change in the long run and trends or structural breaks can be found. Unit root testing consists of various statistical tests, such as the Augmented Dickey-Fuller (ADF) test developed by (Dickey & Fuller, 1979) and

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Philips-Perron developed by (Phillips & Perron, 1988), which is the most widely used unit root test. These tests test the unit root hypothesis of the time series and try to determine whether the series is stationary or non-stationary. According to the test results, when the unit root hypothesis is rejected, that is, when the series has stationarity property, the time series is considered stationary. Table 3 shows the results of unit root tests.

Table 3: Unit root test results

| Variables | ADF | PP |
|---|---|---|
| $g$ | -4.469*** | -4.465*** |
| $DI$ | -0.52 | -0.95 |
| $\Delta DI$ | -3.96** | -4.29*** |

According to the ADF and PP test results, the test statistic is $-4.469$ and $-4.465$ for the "$g$" respectively. These test statistics reject the unit root hypothesis and show that the g are stationary at $I(0)$. In this case "$DI$", the series is not stationary at the level. After taking one differences the DI became stationary at $I(1)$. In summary, based on the unit root test results you provided, we can conclude that the "g" and "$DI$" series have statistically stationary at $I(0)$ and $I(1)$ respectively.

Based on the results of unit root test, ARDL bound test is an appropriate model to estimate our models. The ARDL model developed by (Pesaran et al., 2001) is used to analyze the relationship between at least two non-stationary or mixed stationary and non-stationary variables. This model can also be used for cointegration analysis and long-term cointegration tests are performed to determine long-term relationships. The ARDL model is formulated as a regression equation that includes the stationarity properties of both the dependent variable and the independent variables. In this model, the relationship between the past values of the dependent variable and the past values of the independent variables is analyzed. In case of model 1 and model 3 it can be written as follows:

$$\Delta g_t = \alpha_0 + \sum_{q=1}^{p1} \alpha_{1q} \Delta g_{t-q} + \sum_{q=0}^{p2} \alpha_{2q} \Delta DI_{t-q} + \beta_1 \ln g_{t-1} + \beta_2 DI_{t-1} + \varepsilon_t$$

F-Bounds is the test statistic testing the null hypothesis of no cointegration ($\beta_1 = \beta_2 = 0$). Table 4 shows the results of long run coefficient of the four models.

According to Table 4, although the coefficient of $b$ in model 2 is positive, the variables of the model 2 are not cointegrated and there is no log run relationship between variables of in model 2. Therefore, this year's economic growth did not have long run effect on next year's democracy. In other words, the second model of Lipset (eq2) is not valid for Türkiye. According to the results of the other three model (1, 3, and 4), variables of the three model are cointegrated and statistically significant. Due to positive sign of the $b$ in model 1 (eq1), model 1 is not valid. Therefore it can be said that none of the Lipset theorem is valid for Türkiye and investing in democracy has not created a burden on the Turkish economy and also positive growth has no any effect for improving next year democracy level.

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Table 4. Long run coefficient of ARDL bound Model

| Coefficients/models | Model 1 and Model 3 (Growth is depended variable) | Model 2 (Democracy index is dependent variable) | Model 4 (Growth is depended variable) |
|---|---|---|---|
| $a$ | -8.46 | 0.406*** | -15.49** |
| $b$ | 31.39 | 0.0037 | 46.40** |
| ECT | -1.18***[2] | -0.156[3] | -1.76***[4] |
| F-statistic (long-run) | 6.035*** | 0.441 | 9.539*** |
| | Upper bound of 1%= 5.58 | lower bound of 10%= 3.02 | Upper bound of 1%= 5.58 |
| Prob. $\chi^2_{resid}$ | 0.08 | 0.53 | 0.19 |
| Prob. $\chi^2_{ARCH}$ | 0.84 | 0.52 | 0.60 |
| CUSUM | stable | stable | stable |
| CUSUMSQ | Partly stable | stable | stable |
| Results | Cointegrated | Not cointegrated | Cointegrated |

On the other hand, coefficients of the b in model 3 and model 4 is 31.39 (positive) and 46.40, respectively, indicate that model 3 (eq3) and model 4 (eq4) are valid. This shows that not only this year's democracy has a positive effect on this year's economic growth, but also the imporvement of this year's democracy also has a positive effect on next year's economic growth.

For causality, VAR Granger Causality/Block Exogeneity Wald Test is used to determine the causality relationship between time series. This test is used to understand whether the past values of a variable can predict the future values of another variable. In other words, it asks whether a variable ($g$: economic growth) has a causal effect on another variable ($DI$: democracy index). Table 5 shows the causality between democracy and economic growth.

Table 5. Causality results for model 1 and model 3

| Dependent variable: $g$ | | |
|---|---|---|
| Excluded | Chi-sq | Prob. |
| $DI$ | 0.8585 | 0. 3541 |
| All | 0. 8585 | 0. 3541 |
| Dependent variable: $DI$ | | |
| Excluded | Chi-sq | Prob. |
| DI | 0.5076 | 0. 4761 |
| All | 0.5076 | 0. 4761 |

Firstly, when $g$ (economic growth) is taken as the dependent variable, whether $DI$ (democracy index) has a causal effect on $g$ is tested. The chi-square value is 0.8586 and the probability value (p-value) is 0.3541. Since this p-value is well above the 5% significance level, it can be concluded that DI has no statistically significant effect on $g$. In other words, democracy index does not explain economic growth in the sense of Granger causality. Secondly, when $DI$ (democracy index) is taken as the dependent variable, whether $g$ (economic growth) has a causal effect on $DI$ is tested. The chi-square value is 0.507 and the p-value is 0.476. Since this p-value is also above the 5% significance level, it can be concluded that g has no significant effect on $DI$. In other words, economic growth does not explain the democracy index in terms of Granger causality. In summary, according to these test results, there is no bidirectional

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[2] $EC = g - (31.39 \times DI - 8.46)$
[3] $EC = DI - (0.003 \times g_{-1} + 0.40)$
[4] $EC = g - (46.40 \times DI_{-1} - 15.49)$

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Granger causality relationship between $g$ and $DI$ variables. The VAR Granger Causality/Block Exogeneity Wald Test results for model 2 are summarized in Table 6.

Table 6. Causality results for model 2

| Dependent variable: DI | | |
|---|---|---|
| Excluded | Chi-sq | Prob. |
| $g_{t-1}$ | 0.0581 | 0.809 |
| All | 0.0581 | 0.809 |
| Dependent variable: $g_{t-1}$ | | |
| Excluded | Chi-sq | Prob. |
| DI | 1.7181 | 0.189 |
| All | 1.7181 | 0.189 |

In the first part, the democracy index (DI) was considered as the dependent variable and the previous period value of economic growth $g_{t-1}$ was tested as the independent variable. The chi-square value was calculated as 0.0581 and the p-value was 0.8095. This high p-value shows that economic growth has no significant effect on the next year democracy index.

In the second part, the economic growth $g_{t-1}$ was examined as the dependent variable and the democracy index (DI) was tested as the independent variable. The chi-square value was 1.7181 and the p-value was 0.1899. This p-value also shows that the democracy index has no significant effect on the lagged economic growth. In summary, no significant Granger causality relationship was found in either direction; That is, there is no causal link between economic growth and the next year democracy index and they are not effective in predicting each other. Table 7 shows VAR Granger Causality/Block Exogeneity Wald Test for model 4.

Table 7. Causality results for model 4

| Dependent variable: $DI_{t-1}$ | | |
|---|---|---|
| Excluded | Chi-sq | Prob. |
| g | 0.2255 | 0.6348 |
| All | 0.2255 | 0.6348 |
| Dependent variable: g | | |
| Excluded | Chi-sq | Prob. |
| $DI_{t-1}$ | 0.1022 | 0.7491 |
| All | 0.1022 | 0.7491 |

These results analyze the relationship between the previous period value of the democracy index $DI_{t-1}$ and economic growth ($g$) using a new version of the VAR Granger Causality/Block Exogeneity Wald Test. Firstly, it is tested whether economic growth has a causal effect on the lagged democracy index. The Chi-square value is 0.2256 and the p-value is 0.6348. This high p-value shows that economic growth has no significant effect on the previous period democracy index. Secondly, it is examined whether the previous period of the democracy index has an effect on economic growth. The Chi-square value is 0.1023 and the p-value is 0.7491. This reveals that the lagged democracy index does not make a significant contribution to predicting economic growth. As a result, no Granger causality relationship is found between the lagged democracy index and economic growth in both directions. Therefore, there is no causality relationship at all between the democracy of this year and the growth of next year.

According to the causality test results, no statistically significant causality relationship was found between democracy and economic growth in all four models. This shows that both variables are ineffective in predicting each other when it comes to causility. These results are

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consistent with studies of (De Haan & Siermann, 1996) and (Helliwell, 1994) which suggest that democracy does not direct causality and systematic contribute to economic growth or that growth does not support democracy. This situation emphasizes the need for caution in understanding the impact of democracy on economic growth for policy makers, and the importance of further research.

### 4.2. Time-varying analysis

Many econometric models are based on the assumption that they have constant parameters over time. However, in many real-world situations, economic, social or financial processes can have parameters that change over time. Therefore, time-varying models offer a more flexible framework for capturing variable structures. A time-varying model is a model in which parameters or structural relationships in time-series data change over time. Such models are used to capture variability over time and analyze relationships that change over time. To examine the changes of the relationship between democracy and economic growth we applied the dynamic conditional correlation (DCC)-GARCH model. DCC model was developed by (Engle, 2002). For this goal, both of them should be stationary. Hence, we take one difference for democracy index (DI) to become stationary. Regarding time-varying model, the data should content ARCH effect. Growth has no ARCH effect but for $\Delta DI$, $\varepsilon_{-1}^2 = -0.15$ and has ARCH effect. The table below shows DCC parameters. $\alpha$ and $\beta$ coefficients represent variance model parameters and $\alpha \geq 0$ and $\beta \geq 0$ and $\alpha + \beta < 1$.

Table 8. Coefficients of DCC model

|  | DCC | |
|---|---|---|
|  | Coefficient | t-statistic |
| $\rho$ | 0.111 | 0.879 |
| $\alpha$ | 0.000002 | 0.001 |
| $\beta$ | 0.889 | 6.58*** |

$\rho$ values represent correlation coefficients that in our case:

$$\rho_t = \frac{(1 - \alpha - \beta)\overline{q_{12}} + \alpha u_{1,t-1} u_{2,t-1} + \beta q_{12,t-1}}{\sqrt{(1 - \alpha - \beta)\overline{q_{11}} + \alpha u_{1,t-1}^2 + \beta q_{11,t-1})((1 - \alpha - \beta)\overline{q_{22}} + \alpha u_{2,t-1}^2 + \beta q_{22,t-1})}} = 0.111$$

Graph 1 shows dynamic conditional correlation between changes in democracy and economic growth.

Based on graphic 1, between 1995 and 2000, there was a positive but downward relationship between democracy and the economic growth. After 2000 to 2007, there was an upward still positive relationship. Then between 2007 and 2018, there was an almost constant relationship between democracy and economic growth in Türkiye, but this relationship is still positive. After 2018, there was positive and upward relationship. In general, it can be said that there is a positive relationship between democracy and economic growth in Türkiye. Those results are consistent with ARDL bound test results. That shows democracy has a long run positive impact on economic growth of Türkiye.

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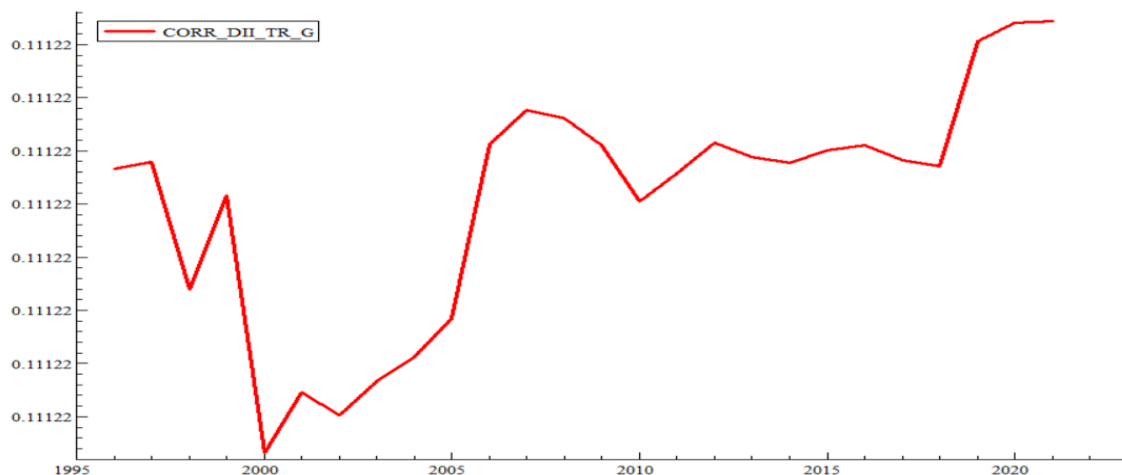**RECENT ISSUES IN ECONOMIC DEVELOPMENT**



Figure 1. DCC between democracy and economic growth

The results obtained regarding the relationship between democracy and economic growth show that these two variables are cointegrated in the long term but can act independently of each other in the short term. One of the main reasons for this is that democracy and economic growth have different dynamics. While democracy involves long-term structural reforms, economic growth is generally determined by short-term factors. Therefore, in developing economies like Türkiye, it is possible that a direct relationship between economic growth and democracy cannot be established in the short term. In addition, the institutional quality and stability of democratic practices in Türkiye may occasionally show weaknesses. The fact that democratic values such as the rule of law, the fight against corruption, and transparency are not fully established may limit the impact of democracy on economic growth. Institutional weaknesses and differences in practice may reduce the potential of democracy to support economic growth.

The external shocks and economic crises that Türkiye experienced during the period under review also affected this relationship. Financial crises, foreign policy tensions, and political uncertainties had sudden effects on economic growth, which disrupted the long-term relationship between democracy and economic growth. While the positive relationship between democracy and economic growth was strong in some time periods, especially between 2000-2007, this relationship weakened after 2007. This situation shows that political preferences and economic policies also affect the relationship between democracy and growth.

As a result, the relationship between democracy and economic growth in Türkiye does not have a continuous structure due to periodic differences and external effects. Institutional weaknesses, economic fluctuations and external shocks have weakened the long-term relationship between these two variables and limited the effect of democracy on economic growth.

The discussion of democracy and economic growth is a very complex issue that cannot be completely very well explained with two variables. It is necessary to include complex non-linear models as well as numerous social, political and economic variables in the model, Therefore, this study only provides a simple insight into the possible relationships between democracy and economic development in line with the existing literature.

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## Conclusion

According to Lipset, the modernization process is associated with factors such as economic growth, education level, urbanization and social change. With the increase of these factors, it is expected that democratic values will become widespread in the society and the demands for democracy will strengthen, and economic growth is a factor that promotes democracy and is a prerequisite for the development of democracy, according to Lipset.

This study aims to examine possible links between democracy and economic growth in Türkiye using annual data from 1996-2021. the results showed that there was a long-term and strong cointegration between these two variables. In addition, Granger causality tests also revealed that there was no two-way causality relationship between democracy and economic growth.

However, although the positive effect of democracy on economic growth was identified in the third and fourth models, this effect was in the long run and cyclical. The contribution of democracy to economic growth in Türkiye was short-term and weak in some periods, and economic growth did not support the development of democracy. The results show that factors such as Türkiye's institutional structures, external economic shocks and policy preferences complicate the relationship between democracy and economic growth. These findings emphasize that other social, political and cultural factors that affect the development of democracy should be taken into account. Although Lipset's theories are not valid in the Turkish context, democracy has been found to have a positive effect on economic growth. Overall, the results of the study show that there is a positive relationship between democracy and economic growth in Türkiye. These findings highlight the complexity of the relationship between democracy and economic growth and highlight the need for a more comprehensive analysis in future studies.

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