Growth Facts in Turkey*

Ayşe Imrohoğlu†  Selahattin Imrohoğlu‡  Murat Üngör‡

First version June 2008; this version March 2009
This version only has the introduction; the paper is being revised.

Abstract

†Department of Finance and Business Economics, Marshall School of Business, University of Southern California, Los Angeles, CA 90089-1427.
‡Department of Economics, University of Southern California, Los Angeles, CA 90089-0253.

*We would like to thank the participants at the 2008 Economic Research Forum Conference organized by TUSIAD and Koç University.
1 Introduction

Growth theory predicts that living standards in economies with similar institutions will converge over time. Indeed, there is ample evidence for convergence. Incomes per capita across states in the United States, between OECD countries, between regions in Europe, and prefectures in Japan have converged significantly over the last several decades.  

While the experiences of countries displaying convergence have enhanced our understanding of the potential factors for growth, examination of countries that displayed non-convergence is also very useful for. For example Cole, Ohanian, Riascos, and Schmitz (2005) argue that non-convergence of the Latin American countries is mostly due to their low productivity growth caused by competitive barriers.

In this paper, we examine the growth experience of one country in detail to add to our understanding of factors that may be responsible for convergence versus non-convergence. We start by evaluating the progress Turkey has made in catching up with the United States between 1923-2008 and argue that there has been very little convergence. We then compare the growth experience of Turkey with that of Greece, Spain and Portugal who display similar gaps with respect to the U.S. after WW II. We conduct several quantitative exercises and identify two distinct periods in Turkish growth experience that warrant detailed examination. Looking at the Turkish economy in isolation identifies the 1977-2001 period as a period of major stagnation where Turkey loses more than 30 percent of output per working-age person relative to a 2 percent growth trend level. The period 1960-1977, on the other hand, where Turkish GDP per working age person grows at a rate of 3.85 percent also turns out to be a period when Turkey falls behind its peers significantly. These observations point to two questions: 1. What factors are responsible for the low relative growth in Turkey compared to Greece, Portugal, and Spain during the 1960-1977 period? 2. What factors are responsible for the slow down of the Turkish economy between 1977-2001?

We conduct growth accounting exercises both at the aggregate and sectoral levels to answer some of these questions. We show that for the 1960-1977 or 1977-2001 periods there are no significant differences in the capital intensity between Turkey and its peers. For these periods, what sets the Turkish experience apart from Greece, Spain and Portugal is a combination of two factors: rapid decline in the employment rate and a low TFP growth rate.

1 See, for example, Barro and Sala-i-Martin (1992), Quah (1996), Boldrin and Canova (2001), Caselli and Tenreyro (2004), Honohan and Walsh (2002), and Bosworth and Kollintzas (2001).

2 There are small differences in these calculations depending on the data source. The results reported here are based on data used in Figure 1.

3 Adamopoulos and Akyol (forthcoming) argue that the dramatic decline in aggregate hours worked in Turkey can be explained by the evolution of structural transformation from agriculture to non-agriculture and the three-fold increase in the marginal tax rate on labor income.
We examine data on labor productivity at the sectoral level to understand the factors behind the slow convergence of the Turkish economy. In a recent paper Caselli and Tenreyro (2004) examine the growth experience of 14 Western European countries and argue that the sectoral reallocation from unproductive agriculture to more productive manufacturing played a significant role in the catch up of poorer Southern European countries to Western European levels. We follow Caselli and Tenreyro (2004) and carry out a convergence decomposition for Turkey relative to Greece, Portugal and Spain.

The rest of the paper is organized as follows. In Section 2, we examine the growth experience of the Turkish economy. In sections 3 and 4, we conduct a growth accounting exercise at the aggregate and sectoral levels. Section 5 concludes.