LEFT-WING TRADE UNIONS IN THE DEVELOPING WORLD:
THE CASE OF TURKEY

GELİŞMEKTE OLAN ÜLKELERDE SOL HÜKÜMETLER VE SENDİKALAR:
TÜRKİYE ÖRNEĞİ

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Abstract

In this article I test the commonly-held argument regarding the positive effects of *left-wing trade unions* on the macroeconomic performance of governments in a developing country case, namely Turkey. By using available Turkish data for 1965-2003, multivariate statistical analysis of Turkish left-wing trade unions suggested that a combination of strong political and organizational power of the left in Turkey resulted in *lower* levels of economic growth and *higher* levels of inflation in the given period. This finding was in marked contrast to earlier arguments for the positive effect of left-wing trade unions on these macroeconomic indicators (Alvarez, Garrett, and Lange 1991). Finally, there was no significant relationship between Turkish left-wing trade unions and the rate of unemployment in Turkey.

Key Words: left-wing trade unions, economic growth, inflation, unemployment, Turkey

Özet

Bu makalede şu ana kadar hep gelişmiş ülkeler düzeyinde çalışılmış olan sol hükümetler ve sendikaların makro ekonomiye etkilerini gelişmekte olan bir ülke olan Türkiye örneğinde inceliyorum. 1965-2003 dönemine ait Türkiye kaynaklı verileri kullanarak yaptığım amprik analizlerde Türkiye'de sendikalaşmanın ve sol hükümetin birlikte yükseldiği dönemlerde diğer dönemlere göre daha *düşük* ekonomik büyüme ve daha *yüksek* enflasyon oranları gerçekleşmiştir. Bu sonuçlar bahsedilen makro ekonomik göstergelere yönelik önceki bulgu ve argümanlara (Alvarez, Garrett ve Lange 1991) destek vermemektedir. Türkiye örneğinde sendikalaşma ve sol hükümetler ile işsizlik arasında ise ciddi bir ilişki ortaya çıkmamıştır.

Anahtar Sözcükler: sendikalaşma, sol, ekonomik büyüme, enflasyon, işsizlik, Türkiye

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1. Introduction

For more than a decade, political scientists have debated how political and organizational power of the left affect the economic performance of governments (Alt, 1985; Lange and Garrett 1985, 1986, 1989; Jackman, 1987, 1989; Hicks, 1988; Alvarez, Garrett, and Lange, 1991; Boix, 2000). Although there is still no unanimous consensus regarding the answer to this question, most previous research supported the theoretical argument that a combination of political and organizational power of the left (i.e. strong leftist governments with strong labor unions) increases the economic performance of a country in terms of economic growth, inflation, and unemployment. However, the above research program was exclusively confined to the advanced industrialized democracies. Thus, the relevance of the findings of these studies for the developing world is still open to debate. This paper aims to fill this gap to a humble extent.

In economics, it is usually not a possibility to make the best of all worlds (the classical Philips Curve is a ubiquitous reminder of this reality). Governments are therefore forced to choose between different options with different trade-offs, growth, equality, inflation, unemployment, interest rates, etc. Under such constraints, right-wing governments are in general more concerned about economic development than its results. In the last three decades, many developing governments with Right-wing or military governance have experienced considerable rates of economic growth; yet this often took place at the expense of higher inflation or unemployment (or both). In contrast, leftist governments are concerned at least as much with income distribution and employment as with overall growth. This makes them more prone to choices that help to improve income equality and employment even though this often means lower levels of growth and higher levels of inflation. Thus, contrary to Lange and Garrett (1985,1986, 1989), Hicks (1988), and Alvarez, Garrett, and Lange (1991) who argued that leftist corporatism improves economic performance of countries regarding inflation, unemployment, and economic growth, I argue that *in the developing world leftist dominance decreases unemployment yet this typically occurs at the expense of economic growth*. Moreover, because inflation is generally more an outcome than a target of the policies of a government, *I expect strong leftist governments to cause higher levels of*

inflation because they increase employment and "social welfare" with relatively lower levels of growth, i.e. they increase national demand without increasing national supply at the same pace.

This paper aims to test the above theoretical proposition through examining the case of Turkey. As of 2006, the Turkish GDP per capita was slightly over $5,000, which qualifies Turkey as a "higher-middle income" developing country (countries with GDP per capita between $3,000 and $10,000 are classified as such). I will analyze the period 1965-2003. Thus, my study is a time-series analysis of a single country. My primary goal is to study the relevance of "leftist corporatism" for Turkey and to reveal how the political power of the left and organizational power of labor influence the performance of the Turkish governments with respect to growth, unemployment, and inflation.

2. "Leftists Corporatism" and Turkey: Methodology and Data

Like Alvarez, Garrett and Lange (1991) –AGL henceforth-, I study the effect of leftist corporatism on three macroeconomic indicators: economic growth, unemployment, and inflation.[1] However, my measurements regarding leftist power and labor organization somewhat differ from those of AGL due to data availability and idiosyncrasies of the Turkish case. First, whereas AGL measure leftist power only as the leftist proportion of the government portfolios, I measure the "leftist power" as the *sum* of the average leftist proportion of the government portfolios and the average proportion of the seats the leftist parties occupy in the Turkish Parliament. Throughout 1965-2003 leftist proportion of government portfolios has ranged from 0 to 1 and leftist proportion of parliamentary seats has ranged from 0.21 to 0.48. As such, my variable "leftist power" reflects the combined *executive* and *legislative* power of the left in Turkey for any given year, which ranges

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[1] The determination of the parties as "leftist" is done according to the common perception of the parties by the public and academics. So far, there has not been such a debate as to whether a party is leftist. This is largely because, throughout the Turkish political history, parties were sufficiently clear and stable regarding their ideological position and core constituents.

from 0.22 to 1.48.[2] I obtain the data for *leftist power* from the official site of the Turkish Grand

National Assembly (TBMM). Secondly, AGL operationalize the organizational power of labor as

the combination of labor's density and centralization; however, because there is no data on the

centralization of labor in Turkey, I use the yearly "unionization rates" (percentage of the unionized

labor) as a measure of the organizational power of Turkish labor.[3] The data for this *union* variable

comes from two different studies, Petrol-Is (1999) for the 1965-1979 period and Celik (2003) for

the post-1980 period. The interactive term, *leftunion*, is simply the multiplication of the *leftist power*

and *union* variables. The data for economic growth, unemployment, and inflation are obtained from

the official website of State Planning Organization (SPO), with the exception that the data for pre-

1980 unemployment rates is taken from Hansen (1991)[4]. Following AGL, I also use an openness

variable as an external control variable, and I also operationalize it as the percentage of exports in

the Turkish GNP. The data for openness variable is taken from the SPO website. Finally, I exclude

the years 1971-3 and 1980-83 from my analysis for their being years of military rule.[5] As such, the

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[2] I use this measurement because in 14 of the 32 years that I analyze, Turkish government is comprised of entirely rightist governments. Thus, AGL's measure does not allow me to capture either the effect of the varying number of leftist seats in the parliament (which is expected to influence the decision-making process given that Turkey's political history is dominated by coalitions and not by powerful single-party governments) or the changing interactive effect of leftist power and union, as multiplication of these two variables always becomes 0 in those years if we use AGL's measurement. Nevertheless, I replicated my models with AGL's measurement. The results were the same so far as the signs and coefficients are concerned, but the statistical significances of the results were lower due to a decreased level of variance in some of the variables.

[3] In fact, there is a high correlation between these two measures. For the years that AGL analyzed in their studies, the correlation between labor density and centralization was 0.8. This relieves any concern about the systematic bias in using only one measurement.

[4] Hansen reports SPO data as well. Because the official website of the SPO does not include unemployment data for the pre-1980 period, I had to use such an indirect way.

[5] One might be concerned about possible effects of the military governance on the following years. I try to control for this effect in two ways. First, the two coups d'etat took place in 1971 and 1980 and followed first by a firm military control and then a gradual return to democracy (though under the auspices of the generals, the Turkish Parliament resumed to function in 1971 and 1981). By leaving out this "gradual return to democracy" periods (1971-3; 1981-83) I exclude military's role on the economic performance of Turkey. Secondly, my models include lagged values of the dependent variables. As such, they control the "happenings" in previous years, and by doing so take into account the possible remnants of the military regime on years 1973 and 1983.

graphs in Appendices 1 and 2 display the yearly trends in leftist power and labor unionization and economic growth, unemployment, and inflation in Turkey, respectively.

3. Preliminary Analysis

It might be helpful to study some crude figures before going into multivariate statistical analysis. Table 1 below displays a comparison of years with higher leftist dominance and years with lower leftist dominance in terms of average economic performance. Between 1965 and 2003, average "leftist power" in Turkey was 0.54 (15 years above, 17 years below that value).

Table 1: Average Economic Performance of Turkish Governments according to their *Leftist Power*, 1965-2003.

Leftist power Mean:0.54	Average growth	Average inflation	Average unemployment
>mean	2.7	53.1	7.7
<mean	6.0	45.3	7.5

The figures in Table 1 provide empirical support to my hypothesis regarding growth and inflation. On average, there is a substantial difference between years with high leftist power and years with low leftist power: years with higher leftist power were on average years of lower rates of economic growth and higher inflation rates. In marked contrast, Turkey experienced an average of 3.3 percent higher growth rates and an average of 7.8 percent lower inflation rates in years when leftist power was *below* its mean value in the 1965-2003 period. The figures concerning unemployment contradict my theoretical expectation, however. Albeit insubstantial, higher leftist power on average resulted in higher unemployment rates in Turkey.

<u>Table II:</u> Average Economic Performance of Turkish Governments according to the interactive "left-union" power in the given year, 1965-2003

Left-union Mean: 8.95	Average growth	Average inflation	Average unemployment
>mean	2.5	52.0	7.5
<mean	5.6	41.4	7.5

Table II shows the same general figures, this time according to the "left-union" variable (the interactive effect of *leftist power* and *unionization*). For the 1965-2003 period, the mean value of *left-union* was 8.95 (11 years above and 21 years below that point). The figures in this table pertaining to growth and inflation are again in line with my theoretical expectations. Turkey experienced an average of 3.1 percent higher growth rates and an average of 10.6 percent lower inflation rates in years with relatively *lower* interactive effect of leftist power and labor. As for unemployment, on average there was no difference between years of high and low *left-union* values.

These two tables provide important clues about the relationship between leftist power, organized power, and economic performance in Turkey. Yet we need a more detailed and controlled analysis to arrive at more reliable conclusions on Turkish "leftist corporatism". Section four below offers such analysis.

4. "Leftists Corporatism" and Turkey: Multivariate Analysis

Appendix 3 has the results of the multivariate statistical analysis for economic growth and three graphs that display the individual and combined effects of leftist power and unionization on economic growth in Turkey. In line with AGL's argument, leftist power and unionization individually have a negative effect on Turkish economic growth, but their interactive term (*left-union*) is positively related with economic growth (and all of them are significant at 99.9% level). The first graph shows the different effects of *leftist power* at different values of unionization; conversely, the second graph displays the different effects of *unionization* at different values of

leftist power. These two graphs give support to AGL's argument that high levels of leftist power coupled with high levels of organized labor increases the performance of a government regarding economic growth. However, we obtain a positive relationship at the upper-far-right of both graphs simply by leaving out the individual negative effect of the second variable. At high levels of leftist power and unionization, we have two negative (individual) and one positive (interactive) effects. As such, if we are to talk about the interaction at high levels of leftist power and unionization, we should include these three effects in our analysis, *for one cannot exist without the other two*. The third graph in Appendix 3 does this job. As is evident, at no levels of leftist power and unionization that is observed in Turkish history, does the "combined" effect of unionization and leftist power increase Turkish economic growth. Thus, the combined effect of leftist power and unionization on Turkish economic growth is always negative. As in the correct interpretation of AGL's results in part one, the only positive effect of the "strong leftist governments with strong labor" turns outs to be to ameliorate the *negative* effect of leftist corporatism.

As for unemployment, although the coefficient estimates are in line with those of AGL, none of the exogenous variables achieve statistical significance in the Turkish case. Table A in Appendix 4 has the results of the statistical analysis for unemployment. Although the t-ratios of the three variables related to "leftist corporatism" are 1 or above 1, they fail to achieve conventional levels of significances. As such, we cannot make *discernable* inferences from those results. Table B in Appendix 4 shows the statistical results regarding inflation. Unlike the economic growth and unemployment models, my inflation model suffered a serial correlation problem. I therefore ran a *Cochrane-Orcutt* model to provide estimates with corrected standard errors. Cochrane-Orcutt model requires that there are no gaps between years, however. I therefore entered the actual values of all variables except *leftist power* for the years 1971-74 and 1981-84 which I had excluded from my sample. Because those years were years of military governance (or governance under the auspices of military), I assigned 0 to the *leftist power* variable for those seven years. These additional years

increased the sample size from 32 to 38 (Cochrane-Orcutt model deletes the first observation).[6] Finally, because economic growth is expected to decrease inflation by increasing aggregate national supply, my inflation model includes the growth variable as a control variable. Consequently, the relationship is found to be similar to the one in economic growth. Leftist power and unionization are individually negatively related with inflation but their interactive effect is positive (and except unionization, the estimates of *leftist power* and the interactive *leftunion* variables are significant at the 0.05 level). Yet the "combined effect" of leftist power and labor on Turkish inflation differs from that on economic growth. As the graph in Appendix 5 shows, strong leftist power coupled with high levels of organized labor *increases* inflation in Turkey. This finding counters AGL's argument that "leftist corporatism" decreases inflation rates. Further, this finding has a strong theoretical basis to it. *Because leftist governments coupled with strong unions increase national demand by increasing wages, employment, and welfare services, yet on the other side cannot increase national supply at the same speed due to lower levels of growth, leftist corporatism inevitably increases inflation in Turkey.*
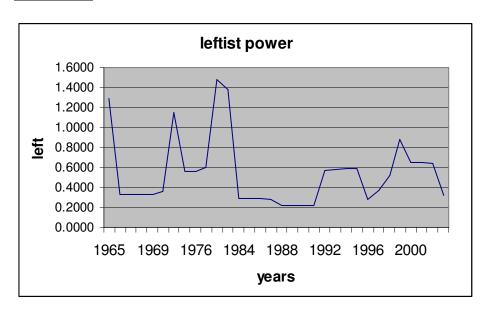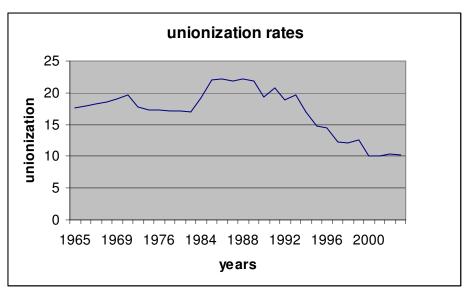
5. Concluding Remarks

This paper aimed to test the commonly-held argument regarding the positive effect of leftist corporatism on the economic performance of governments with the case of a developing country, namely Turkey. In line with my theoretical expectations, multivariate analysis of Turkish "leftist corporatism" between the years 1965-2003 suggested that a combination of strong political and organizational power of the left resulted in lower levels of economic growth and higher levels of inflation. However, as in the "corrected" Beck *et al.* paper, I did not find any significant support regarding leftist corporatism's effect on Turkish unemployment. Thus, the relationship between leftist corporatism and unemployment requires further research.
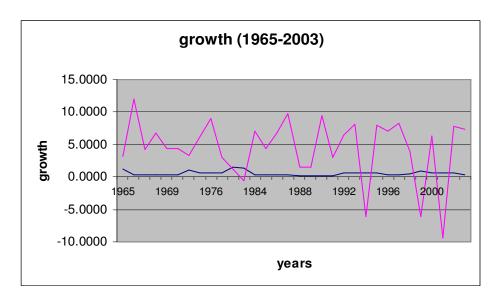
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[6] The results of this new Cochrane-Orcutt did not differ much from and were almost identical with the former model with serial correlation.
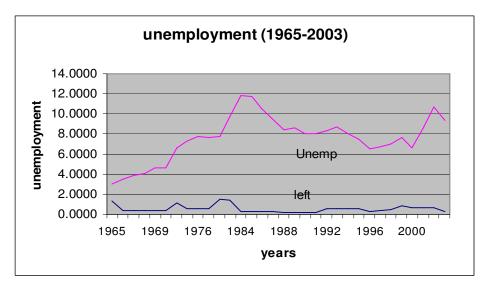
Results of a "case study" cannot be conclusive for a "comparative politics" research program, of course. After all, case studies are not designed to offer general theories; rather, they are most helpful in testing the already-established theories on a specific context and in generating empirically-supported (hence sound) hypotheses. This paper's objectives were shaped accordingly: to challenge the developed-world-based arguments of "leftist corporatism" on the plane of a developing country and to offer empirically-supported alternative hypotheses. If we consider theory-building a process comprising of several steps (concept formation, hypothesis generation, data collection, theorizing, testing), rather than an end-point where we finalize our propositions, we are more likely to appreciate the values of case studies such as this one.
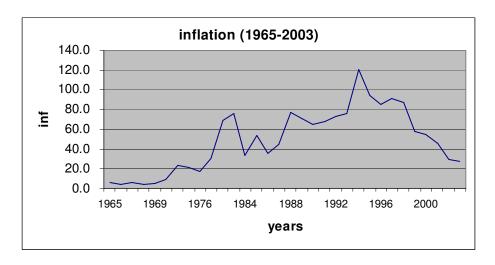
 Lastly, I feel the urge to clarify that this paper did not aim to "denigrate" leftist governments for their poor economic performance in terms of growth and inflation. My main goal was to reveal the true effect of leftist corporatism on the "macroeconomic" performance of Turkish governments. Economic policy is more than growth, inflation, and unemployment, however. Income distribution, minimum wages, life insurances, social security benefits, etc. are all as important aspects of an economic policy as the macroeconomic indicators I have dealt with in this paper. It seems that leftist governments fare better on areas which are mostly excluded in the "leftist corporatism" literature. I hope the reader will take this point as an important implication of this study.
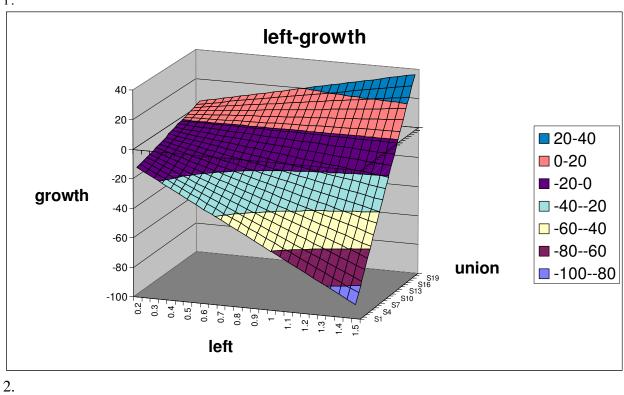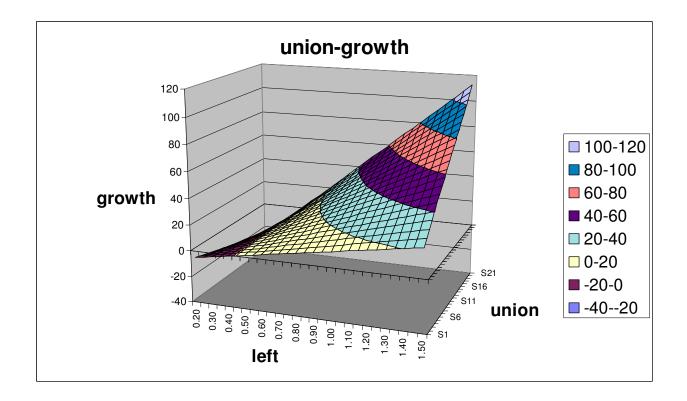
Appendix 1

leftist power

unionization rates

Appendix 2

growth (1965-2003)

unemployment (1965-2003)

inflation (1965-2003)

Appendix 3

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------------------------------------------------------
    growth |      Coef.    Std. Err.       t     P>|t|
-----------+------------------------------------------
Past growth | -.6348977    .1361967    -4.66    0.000
      open |  -.2187693     .160041    -1.37    0.183
 leftpower |  -81.31818     17.1222    -4.75    0.000
     union | -1.831867    .4350525    -4.21    0.000
left-union |  4.216985    .9894383     4.26    0.000
      cons |  47.21025     8.35495     5.65    0.000
------------------------------------------------------
N = 32,   Adj. R-squared = 0.5918
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1.

2.

union-growth

3.

left-union-growth

Appendix 4

Table A

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     unemp |      Coef.   Std. Err.      t    P>|t|
-----------+------------------------------------------
Past unemp |   .8014724   .0913974     8.77   0.000
      open |   .0541719   .0622444     0.87   0.392
 leftpower |   5.316837   4.077617     1.30   0.204
     union |   .1408042   .1122884     1.25   0.221
 left-union|  -.2354356   .2383293    -0.99   0.332
      _cons |  -2.108534   2.050789    -1.03   0.313
-----------+------------------------------------------
N = 32,   Adj. R-squared = 0.8801
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Table B

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       inf |      Coef.   Std. Err.      t    P>|t|
-----------+------------------------------------------
  Past inf |   .8390378   .0668114    12.56   0.000
    growth |  -1.103117   .5723602    -1.93   0.063
      open |   1.255533   .5589888     2.25   0.032
 leftpower |  -155.3962   65.33395    -2.38   0.024
     union |  -1.784991   1.643448    -1.09   0.286
 left-union |  10.06978   3.696558     2.72   0.010
    _inter |   27.78434   32.21314     0.86   0.395
-----------+------------------------------------------
       rho |    -0.2672     0.1522    -1.76   0.087
-----------+------------------------------------------

N = 38,   Adj. R-squared = 0.8882
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