POLITICAL CREDIT CYCLES AND THE ECONOMIC VOTE IN TURKEY

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DECLARATION OF ORIGINALITY

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ABSTRACT

Political Credit Cycles and the Economic Vote in Turkey

This thesis contributes to the study of economic voting, financialization, political credit cycles, debt-financed consumption behavior and political polarization in Turkey. First, First, it introduces the concept of selective accountability to highlight a key distinction between the political fortunes of President Erdoğan and the ruling AKP, showing how voters differentiate between his leadership and the party's performance. Selective accountability, driven by polarization and political interests, helps explain why Erdoğan maintains his position despite AKP's vote losses. Second, the thesis asserts that voters' economic decisions in Turkey are significantly impacted by pre-election credit expansions, referred to as political credit cycles. It posits that reduced interest rates and credit expansion provide immediate financial relief to indebted or hand-to-mouth households, thereby mitigating the adverse effects of inflation on voter behavior. The empirical analysis examines the relationship between personal credit card (PCC) debt and voting behavior during the 2018 and 2023 concurrent presidential and parliamentary elections. By analyzing city-level data, it suggests that voters' propensity to reward or punish government is influenced by changes in interest rate expenditures and credit availability. The findings indicate that support for the AKP was more resilient in provinces with higher levels of PCC debt, suggesting that voters rewarded the party for reducing their financial burdens through lower interest rates and expanded credit availability. Furthermore, the thesis contributes to the discussions on how credit market interventions can serve as private alternatives to public welfare in weak welfare states.

ÖZET

Türkiye’de Siyasi Kredi Döngüleri ve Ekonomik Oy Verme

Bu tez, ekonomik oy verme davranışı, finansallaşma, siyasi kredi döngüleri, borçla finanse edilen tüketim davranışı ve Türkiye'deki siyasi kutuplaşma çalışmalarına katkıda bulunmaktadır. İlk olarak, bu tez, seçici hesap verebilirlik kavramını tanıtarak Cumhurbaşkanı Erdoğan ile iktidardaki AKP'nin siyasi kaderleri arasında önemli bir ayrım sunmaktadır. Bu kavram, seçmenlerin Erdoğan'ın liderliği ile AKP'nin performansı arasında ayrım yaptığını göstermektedir. Kutuplaşma ve siyasi çıkarlar nedeniyle ortaya çıkan seçici hesap verebilirlik, Erdoğan'ın konumunu korurken AKP'nin oy kayıpları yaşamasını açıklamaktadır. İkinci olarak, Türkiye’deki seçmenlerin ekonomik kararlarının, literatürde siyasi kredi döngüsü olarak adlandırılan seçim öncesi kredi genişlemeleri tarafından önemli ölçüde şekillendirildiğini savunmaktadır. Faiz oranlarının düşürülmesi ve kredi genişlemesi, borçlu veya elde avuçta yaşayan hanelere anında mali rahatlama sağlayarak enflasyonun seçmen davranışları üzerindeki olumsuz etkilerini hafifletmektedir. Şehir düzeyinde yapılan ampirik analiz, 2018 ve 2023 eşzamanlı cumhurbaşkanlığı ve parlamento seçimleri bağlamında, bireysel kredi kartı (BKK) borcu ile oy verme davranışı arasındaki ilişkiyi incelemektedir. Bulgular, BKK borç seviyelerinin daha yüksek olduğu illerde AKP’ye olan desteğin daha dirençli olduğunu, seçmenlerin faiz oranlarını düşürerek ve kredi erişimini kolaylaştırarak mali yüklerini hafiflettiği için partiyi ödüllendirdiğini göstermektedir. Ayrıca tez, kredi piyasası müdahalelerinin zayıf refah devletlerinde kamu refahına özel alternatifler olarak nasıl hizmet edebileceğine dair tartışmalara katkıda bulunmaktadır.

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ABBREVIATIONS

CBRT	Central Bank of the Republic of Türkiye (Türkiye Cumhuriyet Merkez Bankası)
BRSA	Banking Regulation and Supervision Agency (Bankacılık Düzenleme ve Denetleme Kurumu)
PCC	Personal Credit Card (Bireysel Kredi Kartı)
MPC	Monetary Policy Committee (Para Politikası Kurulu)
AKP	Justice and Development Party (Adalet ve Kalkınma Partisi)
CHP	Republican People's Party (Cumhuriyet Halk Partisi)
MHP	The Nationalist Movement Party (Milliyetçi Hareket Partisi)
CPI	Consumer Price Index (TÜFE)
NPL	Non-Performing Loans (Tasfiye Olunacak Alacaklar)

CHAPTER 1

INTRODUCTION

The 2017 Constitutional Reforms introduced concurrent elections for the president and the Grand National Assembly (TBMM), a significant departure from the U.S. presidential system where elections for the executive and legislative branches are held separately. *Adalet ve Kalkınma Partisi* (Justice and Development Party, AKP)'s constitution-makers like Karatepe (2017) makes it clear that this simultaneity was a strategic political move designed to address the "divided government problem" and to ensure that the president's party would have a greater likelihood of securing a parliamentary majority. This strategic timing was aimed at leveraging the president's popularity to boost the electoral success of his party's parliamentary candidates, thus maximizing the coattail effect[1] and reducing the risk of legislative-executive conflicts (Karatepe, 2017, p. 34). Furthermore, the inclusion of simultaneous elections in the constitutional framework was driven by the objective of maintaining executive dominance over the legislative branch. This alignment was crucial for enhancing the president's legislative influence, given Turkey's strict internal party discipline (Atar, 2019).

Therefore, it can be argued that AKP's constitution-makers strategically calculated the prospects of the AKP in future elections, beyond just Erdoğan's vote share in the presidential election. They aimed to synchronize the voter base for both the presidential and parliamentary elections, anticipating that the president's popularity would bolster the party's performance in the legislature. This deliberate

[1] According to Borges and Turgeon (2019), as the ideological similarity between parties in an electoral alliance increases, there would be a greater utilization of core coalition members due to the coattail effect of their presidential candidates.

alignment underscores the necessity of analyzing the relationship between Erdoğan's vote share and the AKP's vote share. Examining the growing discrepancy between these two metrics is essential for understanding the broader political strategy and electoral dynamics in Turkey's reformed system. The concurrent elections in 2018 and 2023 provide a unique opportunity to analyze how changes in the form of government influence voter behavior and electoral outcomes, making it a meaningful area of research and starting point for my thesis.

The 2023 election in Turkey provides a compelling case study for economic voting for several reasons. Firstly, the economic conditions were complex, with different voter groups experiencing varied impacts from the government's economic policies (Aytac, 2024). Furthermore, Turkey has endured extremely high levels of political polarization over a prolonged period (M. Wagner, 2021) with significant divisions along lines of religiosity and ethnicity (Çarkoğlu & Aytaç, 2019). The interplay between this deeply polarized political landscape and the 'uneven playing field' in electoral competition Levitsky and Way (2010) raises questions about the applicability of economic voting, a phenomenon widely observed in established democracies, within the Turkish context.

Experts anticipated that economic considerations would primarily influence voter decisions, leading them to predict a victory for Kılıçdaroğlu, the leader of the *Cumhuriyet Halk Partisi* (Republican People's Party, CHP) and the presidential candidate. Contrary to these expectations, Erdoğan narrowly defeated Kılıçdaroğlu in one of the most closely contested elections in Turkish history. Following this outcome, some experts argued that political polarization has diminished the significance of economic factors for Turkish voters. On the other hand, some scholars have identified a correlation between an individual's voting decision and

their retrospective assessment of economic conditions in the 2023 elections (Aytaç, 2024).

Indeed, Erdoğan's victory does not necessarily negate the presence of economic voting for two key reasons. First, despite Erdoğan's personal victory, his party, of which he is still the chairperson, experienced a significant decline in its share of the vote, suggesting that economic dissatisfaction may have influenced voter decisions against the ruling party. Additionally, the government put into effect expansionary monetary policies in order to boost economic growth and employment, alongside compensatory credit market policies to assist those negatively impacted by rising inflation. These measures suggest that economic considerations may have remained a relevant factor for voters.

In the period leading up to the 2023 general election, the Turkish economy experienced a blend of challenges and successes. The implementation of heterodox macroeconomic policies by Erdoğan in late 2021 triggered a significant depreciation of the Turkish lira and resulted in unprecedented inflation levels during the long tenure of the incumbent AKP. Despite these adverse macroeconomic conditions, the era was also characterized by robust economic growth, stable unemployment rates, and substantial wage increases for the lower-income population.

The extensive body of research on economic voting has demonstrated the significant influence of economic conditions on election outcomes. In summary, it has been stated that during times of poor economic conditions, citizens tend to cast their votes against the ruling party[2]. Consequently, voters tend to support the incumbent government during good economic periods and oppose it during economic downturns. This pattern is well-documented in advanced democracies,

[2] See current reviews, Duch, 2007; Hellwig, 2010; Hellwig & Marinova, 2017; Stegmaier & Lewis-Beck 2000, 2013; Stegmaier, Lewis-Beck & Park, 2017; Lewis-Beck & Whitten, 2013).

where cross-national surveys consistently reveal a robust positive correlation between voters' economic evaluations and their tendency to vote for the party currently in office (Duch & Stevenson, 2008; Nadeau et al., 2013; Nannestad & Paldam, 1994; Norpoth, 1996). Similarly, studies on economic voting in Turkey have found that Turkish voters' economic perceptions reliably predict their voting behavior (Aytaç, 2021; Başlevent et al., 2005, 2009; Çarkoğlu, 2008, 2012).

In a recent study, Aytaç (2024b) demonstrated that in the 2023 election, voters who had positive economic evaluations tended to show more support for Erdoğan and the AKP, even when considering their socio-demographic backgrounds, ideological positions, and party affiliations. However, a notable perspective in the economic voting literature posits that voters often interpret economic outcomes or assign responsibility through the lens of their political biases, especially partisanship (Bartels, 2002; Evans & Pickup, 2010; Tilley & Hobolt, 2011).

Recently, there has been a focus on enhancing economic voting theory by considering a combination of economic and political factors. This line of research aims to understand the impact of a country's political climate on the relationship between economic conditions and voter support (Anderson, 1995; Lewis-Beck, 1988; Lewis-Beck & Mitchell, 1993; Pacek & Radcliff, 1995; Paldam, 1991; Powell & Whitten, 1993). The primary objective of this line of research is to account for cross-national variations in economic voting effects by integrating factors such as the clarity of responsibility, the clarity of available alternatives, and the salience of economic issues.

However, what do we understand about regions like Turkey, where democracies are more vulnerable, political contexts are deeply polarized, and economies are less developed? Can these theoretical frameworks and factors be

applied as effectively in such contexts as they are in more advanced democracies? This question underscores the need for a detailed examination of economic voting in countries with different political and economic characteristics.

Economic recessions provide strategic opportunities for the opposition into increase the salience of economic problems. During economic turmoil, opposition have the opportunity to focus their campaigns on the specific economic challenges that the incumbents have been unable to effectively address. This can make the economy a focal point of the election campaign, not only because of its inherent importance, but also because the opposition has the skill to present it in a way that resonates with voters by highlighting tangible, relatable concerns.

One issue that limits opposition parties' ability is the assertion that voters are not greatly impacted by macroeconomic trends. Research shows that individuals' political leanings, especially their party affiliations, have a significant impact on how they interpret information, as demonstrated through various survey and experiment-based studies (Gaines et al., 2007; Taber & Lodge, 2006), thus, voters' beliefs are a synthesis of new information and pre-existing political biases, resulting in a distorted perception of reality (Bartels, 2002). Economic downturns within the usual range often fail to override entrenched beliefs (Chzhen et al., 2014). With that said, growing income inequality can perpetuate the effect of inflation on lower-income groups even more, like in the case of Turkey.

Over the past two decades, Turkey's political and economic environment has undergone significant changes. Key developments include reduced trust in parties other than voters' own and increasing political animosity, alongside growing income inequality. Both citizens and policymakers have become more divided along ideological and partisan lines, resulting in heightened political conflict. This

phenomenon is known in the literature as political polarization (DiMaggio et al., 1996). Svolik (2019) argues that "political divisions turn into structural opportunities for aspiring autocrats when they solidify into hostile camps in a climate of pronounced political polarization" (p. 30). He contends that Erdoğan's political acumen lies in his "ability to draw political battle lines along societal cleavages," (p. 30) which were simmering beneath the surface when he first came into power. By doing so, elections forced his supporters to choose between their political interests and democratic principles. Many of them ended up prioritizing the former over the latter. Similarly, we can expect that a significant portion of Turkish voters may be willing to sacrifice their economic interests in favor of their political allegiances and interests.

One trend that has largely escaped political scientists' purview is the explosive growth of household debt. Most empirical studies within the economic voting literature have focused on public debt. However, there is limited understanding of the role household debt plays in shaping the economic vote in Turkey. Different types of debt can influence political behavior in varied ways due to their distinct purposes. Public debt, unlike private or consumer debt, is a collective responsibility and is often viewed as a reflection of government mismanagement rather than individual financial struggle. As household debt continues to increase globally and its political origins become clear, understanding how household debt affects electoral politics, political behavior, and preference formation represents a potentially valuable area of research.

As Patel, Balmer and Pleasence (2012) and Rona-Tas and Guseva (2018) have demonstrated, consumer debt has surged considerably in both developed and developing countries over recent decades. Scholars argue that individuals resort to

borrowing to sustain their living standards amid rising inequality (Kumhof et al., 2015), stagnant wages (Rajan, 2010), and insufficient fiscal redistribution (Montgomerie, 2013a; Prasad, 2012). In Turkey, the significant rise in consumer debt has been partially attributed to the growing share of wage employment within the total employment (Birdal et al., 2023). Additionally, this increase is also driven by real wage declines among employees, similar to trends observed in other contexts.

The world is no longer centered on the labor market, and voter exposure to financial and asset markets has increased significantly. There is a growing body of research that suggests a link between higher debt levels and the limitations of welfare states. Some studies propose that debt can serve as an alternative or complement to social safety nets (Wiedemann, 2021). In their analysis, Hacker (2008) highlights how shifts in labor markets and welfare states have intensified financial vulnerabilities. These changes have placed a greater burden on individuals, who are now compelled to rely on private coping mechanisms like savings, cutting expenses, seeking help from family, and turning to credit markets. However, whether individuals choose to borrow money to address financial shortfalls is influenced by the structure of a country's credit regime, specifically whether it is permissive or restrictive (Wiedemann, 2023).

As Frank (2013) notes, rising income inequality has made it increasingly difficult for people to afford the same goods they could a few decades ago. This viewpoint is in line with Rajan's (2010) assertion that the increase in credit provided to lower-income households was a result of the government's reaction to the rising income inequality in the United States starting from the 1980s. This expansion enabled a significant portion of the population to sustain their consumption behaviors

driven by consumption emulation, expenditure cascades, and habit formations[3] (Kim, 2020). Indeed, as Wilkinson and Pickett (2009) state, it is in the most unequal societies that debt has risen the most. Previous literature has shown that the growth of consumer debt in Turkey has been driven by both private entities and government actions (Birdal et al., 2023). This growth is largely due to the ability of debt to stimulate economic activity by providing the general populace with access to commodities they otherwise could not afford.

After the 2008 financial crisis, there was a surge in interest in studying the factors behind household debt and its relation to consumption behavior. These discussions revolved around the distributional impact of monetary policy (Bernanke, 2024; Bullard, 2014; Mersch, 2014). Researchers argue that mainstream consumption theories and Keynesian consumption theories[4] fall short in explaining the debt-driven consumption surge observed during this time. They highlight a linkage between income inequality, debt-financed consumption, and the accumulation of household debt[5].

Due to recent developments, economists in the field have increasingly turned to Duesenberry's relative income theory to examine contemporary patterns of consumption behavior, especially in the context of household debt accumulation and growing income inequality. Based on the relative income theory, household consumption behavior is impacted by both absolute income levels and relative income levels. Post-Keynesian have put forth the argument that, based on data from

[3] See Cynamon & Fazzari, 2015; 2016 for a detailed explanation.
[4] Keynesian consumption theory and mainstream consumption theories primarily consider individuals' or households' own income levels (current or long term) and prices as the primary factors determining consumption levels.
[5] See, e.g., Barba & Pivetti ,2009; Cardaci, 2014; Dos Santos, 2009; Cynmaon & Fazzari, 2008, 2013a, 2013b, 2015; Goda, 2013; Kumhof, Rancière & Winant, 2015; Kapeller & Schütz, 2014, 2015; Lapavitsas, 2009; Lucchino & Morelli, 2012; Rajan, 2010; Perugini, Hölscher & Collie, 2016; Stockhammer, 2015; van Treeck, 2012; Wisman, 2013.

the United States, households have experienced a decrease in real incomes since the early 1980s. As a result, they claim that households have resorted to consumption fueled by debt to compensate for this decline. This was facilitated by a deregulated financial system, which led to reduced savings and increased borrowing.

Cynamon and Fazzari (2015) note that "from the early 1980s until the eve of the Great Recession, the bottom 95 percent maintained high consumption despite their stagnating income, postponing demand drag from rising inequality" (p. 177). The result was an ultimately unsustainable, but persistent, increase in household leverage and financial fragility. Accordingly, households often exceed their current and permanent incomes to uphold their social standing within their communities by taking advantage of debt opportunities in credit markets.

Consequently, easy access to credit and low interest rates provides several advantages to individuals (voters). These include consumption smoothing, higher levels of investment and job creation by businesses that receive credit, and positive wealth effects. Flodén, Killström, Sigurdsson and Vestman (2021) found that when interest rates increase by one percentage point, households in Sweden with debt tend to reduce their consumption by about 0.2 percentage points more than households without debt. Studies conducted in various countries, including Australia, the US, and the UK, have observed similar effects (Cava et al., 2016; Cloyne et al., 2020).

Despite the potential risks involved, households, firms, and lenders often underestimate the consequences of politically motivated manipulations in the credit market (Kern & Amri, 2021). Consequently, it is anticipated that governments will intensify their efforts to promote these policies before the elections, leading to a rise in credit market activity. As Quinn (2019), succinctly puts it, credit programs "yield big results for low costs".

Taken together, when interventions are made in both the demand for credit and the supply of credit, it results in a powerful economic stimulant (Rajan, 2010). Kern and Amri (2021) identify a strong positive correlation between elections and bank credit, which they refer to as a 'political credit cycle.' They suggest that, beyond fiscal and monetary policy, politicians also have credit policies in their toolkit, including subsidies and tax breaks, to influence voter behavior. These policy instruments based on credit serve multiple purposes, including managing aggregate demand (Acharya, 2011), redistributing income (Quinn, 2019; Rajan, 2010; Streeck, 2014), and enhancing financial inclusion (Sahay et al., 2015). Kern and Amri (2021) argue that "elections often serve as catalysts for their strategic use" (p. 78). Despite the growing importance of household debt and the possibility of political credit cycles, there is still much to learn about the relationship between credit markets and electoral behavior.

Brännlund (2021a) argues that "financial or asset markets do not always pull voters in the same direction as labor markets" (p. 16). Parties that serve voters' interests in asset markets may sometimes conflict with their interests in labor markets, and the same applies in reverse. Researchers have explored the integration of asset markets into economic voting models. For instance, certain studies have demonstrated a correlation between housing prices and the level of support for the incumbent government (Larsen et al., 2019). These studies operate on the assumption that voters use changes in asset prices to infer macroeconomic conditions. However, wealth may not always a good proxy for electoral behavior, particularly for a developing country like Turkey where most of the households do not accumulate wealth. The ability to consume rises with income as well, implying that a person can have a substantial income without necessarily being wealthy, and vice versa.

Additionally, voters can experience changes in wealth and income in opposite directions. Individuals lacking large savings can incur debt, so transferring their wealth into a negative state, in order to finance the purchase of goods. Hence, it is crucial to give greater consideration to interest rate expenditures, as mounting debts and fluctuations in interest rates can pose challenges for deeply indebted or hand-to-mouth households, who may be compelled to reduce their consumption in response to rising interest rates. Indeed, (Brännlund, 2021b)'s findings highlight that voters also consider credit markets in their voting decisions.

In this thesis, I aim to capture the impact of monetary and credit market policies on economic relief, which can mediate the effects of inflation on economic insecurity and consequently on incumbent support. I will conceptualize personal credit card (PCC) debt as a key driver of pre-election economic relief and use it as a proxy for measuring this relief. PCC captures the real economic activities and consumption capabilities of households, reflecting their immediate financial well-being more accurately. Unlike wealth, which can fluctuate significantly due to asset market changes, or income, which may not fully represent disposable resources, PCC debt provides a clearer picture of how short-term economic policies affect everyday lives, making it a more reliable proxy for understanding voter behavior in the context of economic voting. The fact that the Central Bank of the Republic of Türkiye (CBRT) has lowered its policy rates to boost consumption and economic growth and spent trillions of dollars to suppress the devaluation of the Turkish Lira makes it a suitable case for studying this relationship.

The logic behind my argument is as follows: inflation serves as a primary driver for economic insecurity, which in turn can fuel anti-incumbent voting. To analyze incumbent party support, we must investigate the policies that aim to

mitigate the effect of inflation on economic insecurity. The underlying rationale is that political credit cycles can limit the adverse consequences of inflation on incumbent party support by mediating the effect of inflation-led economic insecurity and decreased purchasing power. To the best of my knowledge, there is no previous research that has examined the impact of PCC debt within the context of political credit cycles in Turkey and investigated the causal effect on voting behavior.

In my analysis, I contend that there was a muted political fallout in 2023 elections because voters were compensated by a dramatic fall in interest rate expenditure and the implementation of credit expansions prior to the election. This hypothesis is consistent with research that find a weaker reaction to economic downturns in situations when voters have the resources to withstand decreases in income (B. B. Park & Shin, 2019; Tertytchnaya & De Vries, 2019). Similarly, Brännlund (2021b) finds that Swedish households tend to reward local governments for reductions in interest rate expenditures.

I argue that, on the one hand, the fragmented opposition in the parliamentary elections provided multiple outlets for voter dissent, leading to losses for the AKP, while the strong ideological and personal loyalty to Erdoğan allowed him to maintain his presidential position. On the other hand, the presence of a unified and clear alternative in Turkey's 2023 presidential election did not lead to the expected economic voting outcomes which can be raised from rising inflation and subsequent increased cost of living, particularly due to the interplay of partisan bias, selective accountability, and strategic pre-election policies and campaign framing. Specifically, I find that Turkish households reward the incumbent AKP for falling interest rate expenditures and rising debt related to it. This result suggests that incumbents can endure difficult periods since households are provided with reduced

expenses on interest rate when inflation is increasing and there is a potential for decline in economic activity. This underscores the complexity of economic voting in highly polarized environments and the importance of considering how ideological alignment and the clarity of available alternatives influence voter behavior. The success of opposition parties in leveraging economic issues for electoral advantage relies on more than just the state of the economy. It also hinges on their effectiveness in framing these issues and overcoming the entrenched ideological biases of the electorate.

In the next section, I delve into the theory of economic voting, highlighting its importance in political science and categorizing it into egotropic and sociotropic types. I address anomalies and challenges in economic voting models and present the methodological approaches used to identify relevant variables. This chapter continues with a discussion on the clarity of responsibility, clarity of alternatives, and the salience of economic issues in different political systems and their collective effect on economic voting. I then examine how these concepts influence voter behavior, particularly in the ideologically highly polarized context of Turkey's multiparty system. Lastly, I introduce the concept of selective accountability and its impact on the clarity of responsibility in Turkish politics. Finally, I emphasize the methodological need to integrate personal credit card (PCC) debt into economic voting analysis to account for the impact of pre-election monetary and credit market policies on electoral outcomes. In the next chapter, I explore the concept of financialization and its implications for household debt. I discuss the growing importance of credit regimes and how they influence household consumption and debt accumulation. The chapter then examines the political implications of debt-financed consumption, highlighting the dual interests of voters in economic stability

and credit market policies. Additionally, I present the application of relative income hypothesis to household debt, illustrating how income inequality drives borrowing and impacts consumption behavior. Finally, I assess the impact of these dynamics on voter behavior and electoral outcomes. In the next chapter, I analyze the political and economic context leading up to the 2023 Turkish elections. I discuss the historical background of financialization in Turkey and its influence on household debt and consumption patterns. Nest, I present the empirical analysis of economic voting in Turkey, focusing on the 2018 and 2023 elections. I describe the data and methodology used, including the incorporation of Personal Credit Card (PCC) debt as a key variable. Finally, I interpret the results, demonstrating how PCC debt influenced voter behavior in Turkey's highly polarized political environment.

CHAPTER 2

ECONOMIC VOTING

Economic voting theory examines the relationship between economic conditions and voting behavior. This theory was introduced in the late 1950s when economists increasingly began to apply formal modeling and mathematical analysis to political phenomena. The study of economic voting theory has greatly enhanced our understanding of how economic conditions influence voting behavior, with economic performance consistently proving to be one of the most reliable indicators of election results (Duch & Stevenson, 2008; Lewis-Beck & Paldam, 2000). Economic voting models are categorized into two main types: egotropic (pocketbook) voting and sociotropic voting, each of which can occur in either a retrospective or prospective manner.

Egotropic voting focuses on voters' personal economic experiences, such as changes in personal finances (Fiorina, 1978), employment status (Grafstein, 2005), or debt issues, which can be attributed to the current administration. In contrast, sociotropic voting involves voters rewarding or punishing politicians depending on the overall performance of the macroeconomy (Nannestad & Paldam, 1994), such as national economic growth (Lewis-Beck & Rice, 1984), inflation rates (Norpoth, 1996), consumer prices (Arcelus & Meltzer, 1975), or other leading economic indicators (Erikson & Wlezien, 1999).

2.1 Anomalies and challenges in economic voting theory

Conventional economic voting models suggest that voters either reward or punish incumbents during elections based on their previous economic performance (Alesina

et al., 1993; A. Healy & Malhotra, 2013; Hibbs, 1987; Kramer, 1971). Key (1961) emphasizes the importance of voters' evaluations of officials's past performance, stating that "voters, in their anger, kick out the worthless ones". Lewis-Beck & Stegmaier (2000) aptly captured this notion: "The citizen votes for the government if the economy is doing all right; otherwise, the vote is against" (p. 183).

Even beyond the academic sphere, it is widely accepted that candidates from the incumbent party tend to secure election victories during periods of prosperity and face defeats during times of hardship. Despite the conventional wisdom that good economic times favor incumbents and bad times lead to their downfall, the relationship between economic performance and voting behavior is not always straightforward. Indeed, while the economy can serve as a reliable predictor of party and incumbent support in certain countries and at specific times, it frequently fails to do so under varying conditions (Anderson, 1995). Scholars have identified notable irregularities (Paldam, 1991; Powell & Whitten, 1993), prompting ongoing research into the conditional nature of economic voting.

2.2 Methodological issues and identification of relevant variables

In light of these complexities, the literature on economic voting has expanded to address two main challenges: methodological issues and the identification of relevant variables. The body of micro-level, survey-based research generally finds that voters are sociotropic, retrospective, and myopic (Fiorina, 1978; Hibbs, 1987; Key, 1966; Kiewiet & Lewis-Beck, 2011; Kinder & Kiewiet, 1979; Norpoth, 2004; Tufte, 1978). Conversely, the macro-based literature, along with the political economy theory that supports it, generally posits that voting behavior is influenced by personal economic considerations (A. J. Healy et al., 2017). This body of work largely concludes that,

on the whole, individuals take into account their personal finances when casting their votes, possess a future-oriented perspective, and proficient in holding politicians accountable for economic performance (Erikson et al., 1989, 1992, 2000, 2002). From this perspective, an individual's political views are shaped by factors such as their employment status, risk of job loss, their position in the income distribution, and expected future earnings (Iversen & Soskice, 2001; Mares, 2006). People's political inclinations are likely to change as they adapt to shifting circumstances, with the aim of securing compensation or protection against potential economic downturns.

To illustrate micro-level studies Gélineau & Singer (2015), utilizing data from the LatinoBarometer and AmericasBarometer, the study revealed that the economy significantly influences voters due to their perception of it as a crucial political matter and their belief that politicians bear responsibility for economic results. Similarly, Gelineau, Turgeon, Lewis-Beck, Belanger and Nadeau (2017), using three waves of the AmericasBarometer, determined that voters evaluate various economic indicators, weigh their importance, make a comprehensive judgment about the economy's performance. They found that when voters perceive a positive change in the national economy within the past year, their likelihood of voting for the incumbent increases by an average of 13 percentage points. Aytaç (2024), demonstrates through multivariate analyses that respondents who had more favorable economic evaluations were more inclined to vote for Erdoğan and the AKP. This trend persisted even after accounting for factors such as socio-demographic characteristics, ideological positions, and party affiliation.

These survey findings on economic voting are valuable because they avoid the pitfalls of the ecological fallacy. Instead, they directly capture the economic

considerations of individual voters, which are a reflection of the observed macro patterns. However, the survey-based literature on economic voting has faced challenges from theories of motivated reasoning, partisan bias, and information asymmetry.

One such challenge comes from studies suggesting that survey data evaluations are influenced by motivated reasoning (Anderson et al., 2004; Brug et al., 2007; Chzhen et al., 2014; Duch et al., 2000; Evans & Andersen, 2006; Evans & Pickup, 2010; Pickup & Evans, 2013; Wlezien et al., 1997). This means that voters determine their preferred candidate first and subsequently align their economic assessments to support that decision.

Second, economic evaluations often exhibit partisan attribution bias. This bias occurs when voters attribute national economic performance to the incumbent, with partisans more likely to credit their supported party when the economy performs well (Bisgaard, 2015; Norpoth, 2001; Peffley et al., 1987; Peffley & Williams, 1985; Rudolph, 2003). For example, if the economy is doing well, supporters of the ruling party are more likely to attribute this achievement to the policies and efforts of their own political faction. Another mechanism at play is 'partisan cheerleading' (Gerber & Huber, 2010), in which individuals' views of the economy are shaped by their party loyalties. In this case, partisanship affects how individuals perceive economic conditions irrespective of the actual economic performance. In polarized contexts, such as those observed by Aytaç (2024), voters tend to perceive economic conditions more positively when their favored party is in power (Zaller, 1992). Supporters of the ruling party tend to perceive the economy as more robust and express higher overall life satisfaction when their party is in control in comparison to those who are aligned with the opposition (Di Tella & MacCulloch, 2005).

Furthermore, there is a wealth of research suggesting that voters frequently lack sufficient information, leading to assessments that may be subjective and inconsistent (Bartels, 2002; Conover et al., 1986; Gomez & Wilson, 2006; Hellwig & Marinova, 2015; Kramer, 1983). It is anticipated that the degree of subjectivity and inconsistency will vary based on the level of political sophistication (Alt et al., 2016; Duch et al., 2000).

These issues can lead to incorrect conclusions about the presence of economic voting, as respondents' answers may be biased. To address this, I will utilize macro-level data. Macro-level data offers a more comprehensive understanding of economic voting by employing objective macroeconomic variables including GDP growth, inflation rates, and employment statistics. These indicators can be linked to voting patterns, providing a clearer picture of how economic conditions influence electoral outcomes. It also generates hypotheses that can be tested with individual-level data in subsequent studies.

Moving to the identification of relevant variables that can measure economic voting and factors that can inhibit it, it is evident that the literature on economic voting has significantly advanced beyond the initial simplistic reward-punishment framework. As the field developed, scholars found notable variation between countries in terms of the extent of economic voting and tested various theories that could account for these variations. (Anderson, 1995, 2000; Lewis-Beck, 1988; Powell & Whitten, 1993). Leading scholars have explored the way in which political institutions, the structure of the national economy, and voter characteristics might hinder the ability of voters to hold governments accountable for their economic

performance[6]. Indeed, the evidence for effects of the economy has often been ambiguous and inconsistent across countries (Paldam, 1991).

2.2.1 Clarity of responsibility

A notable advancement in the scholarly research on economic voting has focused on the concept of "clarity of responsibility" and its effect on the strength of the relationship between economic conditions and voter behavior towards incumbent politicians. Clarity of responsibility pertains to the attributes of the domestic political context that influence how well voters can identify and hold specific institutions, parties, or actors within the national government accountable for economic and policy outcomes (Valdini & Lewis-Beck, 2018). Higher clarity of responsibility directly affects the extent of economic influence on support for the incumbent, whereas decreased clarity diminishes this influence.

The level of clarity seems to be influenced, to some extent, by the rules of the game within which political decision-makers work (Valdini & Lewis-Beck, 2018). In their seminal work, Powell and Whitten (1993) were the pioneers in extensively examining this concept. They showed that variations in institutions give rise to policymaking contexts characterized by high or low clarity of responsibility. Furthermore, they found that the level of clarity within a national government amplifies the impact of national economic conditions on voting behavior. Their argument has been widely supported in later research (Bengtsson, 2004; Duch et al., 2000; Hellwig & Samuels, 2007; S. Hobolt et al., 2013; Nadeau et al., 2002; Palmer & Whitten, 1999).

[6] Anderson (2007) and Kayser (2014) provide a comprehensive review of the literature on the conditionality of economic voting.

However, a subsequent question in the literature is whether the clarity of responsibility hypothesis can be applied to presidential systems, given that Powell and Whitten's research mainly focuses on parliamentary democracies, with the U.S. being the only exception. Studies have indicated that the factors affecting the level of clarity of responsibility in parliamentary systems may be irrelevant or minor in strong presidential systems (Cox & Morgenstern, 2001; Mainwaring & Shugart, 1997). The reason for this is that in presidential systems, the head of the government is popularly elected for a fixed term that does not depend on legislative support. This strengthens the bonds between presidents and voters, as well as the level of accountability between presidents and voters (Corrra, 2014).

Even though direct elections strengthen the bonds between the head of government and voters in presidential systems, there are reasons to believe that the political and institutional context can still affect accountability in these systems. According to Correa (2014), it is true that voters have no problem assigning responsibility for the economy to the president, but their ability to act upon this responsibility assignment may be conditioned on incumbent's ideology. Incumbent personality, electoral rules and institutions, and the level of democracy can also condition voters' ability. For this reason, an increasing number of empirical research demonstrates that economic voting can be observed in countries with low levels of clarity of responsibility, and conversely, it may be absent in countries where the clarity of responsibility seems highest (Hansford & Gomez, 2015; Royed et al., 2000; Samuels & Hellwig, 2010).

In presidential elections, the individual candidates play a crucial role, as these elections are not merely contests between parties. Hart (2014) argues that political actors can strategically prime or downplay economic issues. The primary mechanism

for incumbent presidents to hinder clarity of responsibility is strategic blame-shifting. Presidents can shift blame for economic issues onto the opposition or global actors. Integration into the global economy (especially in trade-dependent countries) can further complicate clarity and suppress the economic vote (P. ‘t Hart, 2014) . Thus, president’s ability to strategically shift blame for economic issues to external factors (e.g., global economic conditions) or opposition parties can protect him from being held accountable for economic problems. For instance, after the COVID-19 pandemic, President Erdoğan effectively uses his control over media narrating global trends in rising inflation to deflect responsibility from himself and his administration. In Turkish context, we can expect that there is clarity of responsibility because Erdoğan, as a strong president with hyper control over policy, is directly elected and accountable to the voters. Erdoğan’s strong personal leadership and visibility mean that voters are aware of his role in shaping economic policies. This theoretically should lead to clear accountability. Despite this clarity, selective accountability comes into play due to Erdoğan’s strong personal brand and ideological alignment with a significant portion of the electorate. Selective accountability refers to the phenomenon where voters hold different political actors accountable for economic conditions based on various factors. Voters differentiate between his leadership and the party’s performance, often blaming the latter for economic issues. Despite economic hardships, Erdoğan’s strong personal brand and leadership style can lead voters to perceive him as a stabilizing force, thus insulating him from economic blame.

In Latin America, economic conditions often lead to changes in presidential incumbency, while in Turkey, President Erdoğan retains his position despite economic challenges, with his party losing votes in parliamentary elections.

When the presidential and legislative elections are twin elections like in Turkey, voters might be led to focus on candidates' personal attributes and ideological positions in the presidential election and on economic and local issues in the legislative elections.

2.2.2 Clarity of alternatives

Economic voting is also shaped by the clarity of available alternatives, a concept referred to by Lewis-Beck as "incumbent alternatives for dissent" (Lewis-Beck, 1986, 1988). Sanders and Carey (2002) note that a credible alternative to the ruling party is often essential for voters to hold it accountable for economic performance. Voters are able to effectively express their satisfaction or dissatisfaction with the incumbent party or president when they have a clearly defined set of viable alternatives to the incumbent government (A. Hart, 2016)

In a multi-party system, voters have a plethora of options to punish the incumbent by casting their vote for an opposition party. It can be argued that this can dilute the impact of dissenting votes in times of economic hardship as no single opposition party may emerge as a strong alternative government. Conversely, in a country with a simple two-party system or a presidential system, voters can more easily identify the alternative government, making it clearer who they can support as an alternative to the incumbent. Thus, this literature expects to see more economic voting in two-party and presidential systems.

However, this logic premises upon the idea that voters aim to unseat the incumbent with dissenting votes. In the 2023 twin elections in Turkey, there was a unified and credible opposition candidate in the presidential election. This should theoretically have made it easier for voters dissatisfied with the economy to support the opposition

candidate. This is where polarization, partisanship, and political interests come into play. The question is whether voters genuinely aim to remove the president or merely send a message to the incumbent.

Polarization refers to the deep ideological divisions within a society that can influence voting behavior. In highly polarized environments like Turkey, voters' decision-making involves a trade-off between expressing dissent and maintaining ideological alignment. Erdoğan's base may view him as a defender of their ideological values and prioritize ideological alignment and perceived leadership qualities over economic conditions. Voters may use parliamentary elections to send a message of dissatisfaction without necessarily aiming to remove the president. This can be seen as a way to protest economic conditions and the performance of the ruling party while still supporting Erdoğan due to ideological or strategic reasons. Some voters might engage in strategic voting, supporting opposition parties in the parliamentary elections with the aim of check and balance. The presence of multiple opposition parties allowed voters to effectively protest against the AKP's economic management without unseating Erdoğan.

2.2.3 Salience of economic issues

The economy frequently plays a central role in election campaigns and is considered a valence issue, as described by Vavreck (2009). A valence issue is one on which there is broad agreement among voters, such as the preference for a strong labor market over a weak one or high growth rates over low growth rates. The consensus on economic goals allows opposition parties to capitalize on economic downturns, particularly severe recessions, to highlight the incumbent's failures and propose their solutions. Consequently, the influence of the economy on voting behavior is not

solely determined by economic conditions but also by how parties frame economic issues in ways that directly and significantly impact voters.

The way economic crises unfold allows political parties to elevate the importance of particular issues, shaping voters' retrospective and prospective evaluations of party performance. For example, if unemployment rises significantly, opposition parties can campaign on the incumbent's failure to maintain job growth, thereby making employment a critical issue in voters' minds. The effectiveness of political parties in leveraging economic issues for electoral gain depends on several factors: the degree of polarization/partisanship in the country, their past actions and competence signals, the significance of specific issues where the government has failed, and the existence of a level playing field.

Partisanship also plays a significant role in this process, as economic perceptions are often obscured by partisan bias (Bartels, 2002; Evans & Pickup, 2010; Gerber & Huber, 2010; Ramirez & Erickson, 2014) and the extent of economic voting is influenced by the intensity of partisan attachment among voters (Kayser & Wlezien, 2011). Önnudóttir, Schmitt and Harðarson (2014) and Teperoglou & Tsatanis (2014) contends that severe economic crises can erode partisan ties. Yet, for this erosion to happen, voters need to experience severe economic shocks; typical economic fluctuations usually do not alter entrenched political habits and cues (Chzhen et al., 2014). Therefore, it is not always the case that voters will punish governments for macroeconomic weaknesses, even when the opposition emphasizes economic issues during the campaign (Anderson, 2007).

Voters consider the historical performance and competence of political parties when evaluating their current economic promises. Parties with a track record of economic mismanagement may struggle to convince voters of their current economic

plans. The salience of particular economic issues depends on their immediate relevance to voters. For example, rising unemployment or inflation might be more pressing concerns than long-term fiscal policies. In democratic countries, opposition parties and the media play crucial roles by overseeing governmental actions and keeping the public informed (Przeworski et al., 1999). The existence of a fair and competitive political environment allows opposition parties to effectively communicate their messages and critique the incumbent government. It should also be noted that Turkey is now an electoral authoritarian regime. Such a regime is defined by the presence of democratic institutions like elections and opposition parties, but with the incumbent manipulating these institutions to maintain power, including media control and a co-opted judiciary for punishment. Therefore, the lack of level playing field and free media may also hinder economic voting.

C. J. Anderson (2007) introduces the concept of contingency dilemmas, highlighting a significant challenge: while economic voting is observable, particularly at the local level (Ansolabehere et al., 2014; Elinder, 2010; Larsen et al., 2019; T. Park & Reeves, 2020; Reeves & Gimpel, 2012; Simonovits et al., 2019), numerous incumbents manage to endure even under adverse economic conditions. Considering this, it is crucial to identify important boundary conditions for economic voting research and to be acutely aware of the political and economic contexts in which economic voting occurs (Anderson, 2000). The assignment of credit and blame for a country's economic performance by its people is shaped by a combination of objective and subjective economic factors, including economic competence signals from the incumbent and opposition, the clarity of responsibility for economic policies, political context, institutional features and characteristics of the voters themselves. Given that the politico-economic context in which voters, policymakers,

and parties operate varies significantly across countries and evolves over time within a single country, it is highly beneficial to systematically analyze a country through detailed case studies.

2.3 Determinants of the economic vote

While current studies continue to support the existence of economic voting, there is ongoing debate regarding which macroeconomic variables are most influential. Remmer's seminal work (1991) applied the economic voting hypothesis by analyzing 21 presidential elections in 12 Latin American countries. She investigated how variables such as inflation, economic growth, and exchange rates affected votes for incumbents. Her findings indicated that incumbents tend to suffer electoral losses during short-term economic declines (Remmer, 1991). Extending this line of research, Benton (2005) analyzed 39 presidential elections from 1980 to 2003 in 13 Latin American countries, finding that a 1 percentage point decrease in per capita GDP could result in a 1.7 percentage point loss in the incumbent party's vote share (Benton, 2005). Johnson and Ryu (2010) determined that economic growth and inflation have significant influences on voting behavior. In a broad analysis encompassing 18 countries and 79 elections from 1982 to 2010, Singer (2013) identified time-specific macroeconomic effects while also recognizing a consistent overall effect of economic growth throughout the entire period.

Specifically, models of sociotropic voting reveal that while personal financial concerns (egotropic voting) do play a role in voters' decision-making (A. J. Healy et al., 2017; Tilley et al., 2018), the predominant factor in assessing the incumbent government is the state of the national economy (Kiewiet & Lewis-Beck, 2011; Kinder & Kiewiet, 1979; Lewis-Beck & Paldam, 2000; Lewis-Beck & Stegmaier,

2000, 2013). Namely, most voters agree that low inflation and unemployment rates are preferable to high ones and that economic growth is more desirable than stagnation. Consequently, incumbent candidates who achieve low unemployment rates and high economic growth are generally viewed more favorably by voters (Alesina & Rosenthal, 1995; Dorussen & Taylor, 2003). This conclusion often leads to the interpretation that voters are driven by public interest (Lewin, 1991). However, other scholars propose that it is unlikely for voters to be largely driven by the public interest. They argue that researchers have been misguided by the noisiness of personal economic data (A. J. Healy et al., 2017), suggesting instead that the perceived significance of sociotropic assessments stems from the fact that the national economy provides a clearer signal of government performance than personal economic experiences (Ansolabehere et al., 2014; Elinder et al., 2015; Kramer, 1983; Peltzman, 1990). This prompts the inquiry into how voters shape their opinions on the national economy, which eventually influences their evaluations of incumbent governments' performance. From this standpoint, while personal economic experiences are direct and salient, while understanding the state of the national economy relies on information from news outlets or one's immediate environemnt (Grafstein, 2009; Kinder & Kiewiet, 1981). Nannestad and Paldam (1994) point out that individuals' experiences of growth and inflation should closely mirror the macroeconomic averages since these variables are, by nature, averaged. However, individual experiences of unemployment can vary significantly, for instance. Unemployment is often utilized as a measure of economic insecurity in the field of political economy and voting behavior literature, given its significant role in driving economic insecurity (Arzheimer, 2009; Chung & Van Oorschot, 2011; Inglehart & Norris, 2016; Lipset, 1981; Marx, 2014; Rueda, 2007). There is a commonly held

belief that when unemployment rates are high, there tends to be a rise in support for far-right political parties (Arzheimer, 2009; Kitschelt & McGann, 1997; Lipset, 1981).

However, individuals often struggle to rationalize their personal financial experiences with their political beliefs (Brännlund, 2021b). Assessments grounded on personal financial situations are therefore more impartial (A. J. Healy et al., 2017). This implies that citizens hold governments accountable for changes in their personal financial conditions (Tilley et al., 2018). Furthermore, individuals who are financially secure are less likely to hold current officeholders accountable for macroeconomic weaknesses (Tertytchnaya & De Vries, 2019). Most empirical studies tend to emphasize individual or household salaries as indicators of voters' material conditions. Consequently, some researchers have begun to explore alternative measures to capture voter prosperity beyond mere salary, such as overall household revenue or access to credit.

This approach is crucial, given the limited research on economic voting and credit markets. Upon examining the existing body of work, it becomes evident that previous studies have predominantly focused on income and its associated risks, such as unemployment (Brännlund, 2021b). Nevertheless, the well-being of households is influenced by fluctuations in both earnings and expenditures, including housing costs and interest rates (Brännlund, 2021b). This is a key reason why voters generally oppose inflation (Palmer & Whitten, 1999). It is quite surprising that personal credit card expenditure is often overlooked in the field of political science. Many economic voting models heavily rely on macroeconomic figures, assuming that they accurately represent changes in voters' overall well-being. Therefore, the aim of this thesis is to analyze the influence of personal credit card debt and reduced interest rate

expenditure on election results, which is a clear and salient concern for the voting population in Turkey.

Over recent decades, the significant increase in both consumption and debt has created dual interests for voters. Nevertheless, these variables are frequently absent in conventional economic voting models. This study aims to demonstrate that although traditional models are not entirely wrong in asserting that voters are concerned about traditional economic indicators, there should be a stronger focus on credit markets. The economy remains crucial, but voters' interests may diverge depending on whether they are indebted or not. Essentially, as the number of indebted households increases, it becomes more important to incorporate financial markets into our models of voting behavior.

Çınar (2010) identified inflation as the most crucial macroeconomic variable influencing voter preferences. My hypothesis is that credit market policies can moderate the impact of inflation on economic insecurity, thereby influencing support for the incumbent. Understanding which policies have this moderating effect is especially important in developing countries with polarized societies and authoritarian governments, where such policies can significantly affect electoral outcomes. These patterns of pocketbook voting make low interest rates and credit card debt salient issues for study.

In his empirical research on Swedish elections, Brännlund (2021b) posits that political fallout was mitigated as voters were offset by a substantial decrease in expenditure on interest rates. This aligns with research suggesting that voters show a less pronounced reaction to macroeconomic weaknesses when they possess mechanisms in place to cope with income shortfalls (B. B. Park & Shin, 2019; Tertytchnaya & De Vries, 2019).

Unlike the abstract national economic aggregates such as GDP growth, which voters obtain from mass media and are subject to political disputes (Soroka, 2006; Soroka et al., 2015), voters can directly perceive local economic conditions through everyday experiences. Residing in regions with lower unemployment rates, thriving businesses, and other positive signs of economic progress offers citizens with relatively impartial indicators that the economy is performing admirably. This, in turn, leads to a greater likelihood of backing the incumbent government (Reeves & Gimpel, 2012). Furthermore, focusing on within-city variation allows researchers to account for unobserved heterogeneities. Different cities can experience varying economic fortunes due to diverse local industries, employment opportunities, and policy implementations.

In this thesis, I argue that the seemingly anomalous election outcomes in Turkey, where President Erdoğan won despite significant economic issues such as inflation, high living costs, and currency crises, can be explained through the lens of pre-election low-interest rate policy and credit expansion. Contrary to the usual assumption that political candidates have limited control over the extent of economic vote, I propose that pre-election economic policies play a significant role in conditioning the strength of the economic vote, especially when combined with an ideologically polarizing election campaign. This can lead to significant, even decisive, impacts on election outcomes.

It is possible to engage in theoretical discussions regarding this prediction in relation to existing models of economic voting. Alesina and Rosenthal (1995) offer a persuasive model that indicates how both middle- and working-class voters support income growth and oppose inflation, albeit to varying degrees. Working-class citizens are presumed to tolerate higher as it tends to be associated with lower

unemployment rates, whereas the middle class tends to be against inflation because it can negatively affect their financial savings (Brännlund, 2021b). However, all voters, regardless of class, prefer lower interest rates on loans. Therefore, fluctuations in interest rate affect all incumbent governments, irrespective of their political orientation, as "there is no clear-cut left–right dimension to this issue" (Brännlund, 2021b.).

Why did Erdoğan manage to consolidate his votes between 2018 and 2023, despite worsening economic conditions and significant losses for the AKP? This thesis posits that Turkish voters' decisions are influenced by the president's ideology, which shapes their expectations and the accountability relationship between them. The content of political campaigns and government proposals shapes voters' expectations of presidential actions, and consequently, the criteria they use to assess performance. Ideological extremism tends to be inversely related to political campaigns that focus on valence issues such as inflation, corruption, and investments in health and education. Centrist candidates typically propose government agendas that prioritize less divisive issues, such as such as economic growth and corruption, while leftist and rightist candidates are more likely to emphasize their positions on more contentious issues (Curini, 2015). For centrist parties, it is more effective to convince moderate voters of their administrative competence rather than focusing on issues traditionally associated with leftist or rightist parties. In contrast, parties at the ideological extremes are incentivized to campaign on more controversial issues aligned with their political agendas. Therefore, it is plausible that economic voting manifests differently due to polarization and party identification.

The prevailing belief among scholars and political commentators is that voters have high expectations of politicians, hoping for robust economic

performance. Consequently, many view economic weakness as a clear signal of impending electoral defeat. Nevertheless, the muted and moderate response to the recent economic downturn in Turkey suggests that political scientists should explore economic voting from new perspectives. This study, thus, aim to investigate the compensating effects of falling interest rate expenditures, credit expansion, and the associated rise in consumption on election outcomes.

2.4 Economic voting within ideologically polarized context

The key to resolving the apparent contradiction lies in understanding that economic voting does not operate in a vacuum. Instead, it is significantly influenced by the ideological context in which it occurs. Ideological polarization and selective accountability mean that voters' economic assessments are filtered through their ideological lenses. Thus, both ideological polarization and targeted economic policies such as pre-election credit expansions (by directly affecting voters' personal finances) might reduce the straightforward impact of traditional economic indicators like inflation or currency rate on voting behavior.

The Turkish government's pre-election strategy involved significant credit expansion and lowering interest rates to alleviate the financial burden on voters, particularly targeting the indebted lower and middle classes. This strategy can be interpreted as an attempt to mitigate the negative effects of economic insecurity by providing immediate financial relief, thus retaining voter support despite broader economic issues like high inflation and currency crises. Lower interest rates reduced the cost of borrowing, allowing households with liquidity constraints to manage their finances more easily. This provided short-term economic relief and potentially improved their living standards. Similar to the lower class, middle-class households

with significant debt benefited from reduced interest rates, which eased their repayment burdens and supported consumption. However, the erosion of middle-class wealth due to stagnant incomes and high inflation may not be fully offset by lower interest rates.

Voters now have a vested interest in both economic stability and credit market policies due to the simultaneous rise in consumption and debt in recent decades. Traditional economic voting models, which focus primarily on income and unemployment, might overlook the critical role of credit markets. The importance of credit markets in economic vote grows as the number of households with liabilities increases. Indebted voters prioritize low interest rates to manage their debt, while savers might prefer higher interest rates for better returns. On the other hand, economically disadvantaged groups rely more on credit markets due to limited public support, while wealthier voters might support a permissive credit regime over comprehensive social safety nets. In weak welfare states, credit markets play a substitutive role, providing private alternatives to public options.

CHAPTER 3

FINANCIALIZATION AND POLITICAL CREDIT CYCLES

3.1 Credit regimes

Financialization denotes the growing prevalence of financial incentives, financial markets, financial actors, and financial institutions in the economy, shaping not only corporate strategies but also the everyday lives of individuals and households. Financialization is characterized by the expansion of financial instruments, the proliferation of debt, and the growing importance of financial markets in influencing economic policy and also political behavior.

Wiedemann (2023) argues that countries have unique combinations of institutional frameworks and regulatory, as well as fiscal policy configurations, which he refers to as "credit regimes." These regimes impact the distribution of credit between households and businesses, thereby shaping households' access to credit markets. In comprehensive welfare states, social hazards do not necessarily lead to higher levels of borrowing, thanks to the financial assistance provided by social policies. This reduces the significance of the structure of the credit regime. However, when social policies are comprehensive yet stratified—providing strong support for disadvantaged groups and weak support for affluent groups—credit markets and welfare states coexist, jointly offering financial liquidity through either public government transfers or private credit. Conversely, in weak welfare states where economically disadvantaged groups face greater social risks, individuals must turn to private alternatives to manage social risks or unexpected income losses. In such situations, the structure of the credit regime becomes crucial in determining whether individuals can access credit markets to cover financial gaps. Permissive

credit regimes allow credit to function as a private alternative to the welfare state, while restrictive regimes do not, forcing individuals to depend on savings, reducing expenditures, and family support.

Welfare states function by redistributing wealth, typically shifting resources from the affluent to the less wealthy, with the goal of alleviating poverty and reducing income inequality. These states also provide a safety net against social risks, enabling individuals to manage income losses during unemployment, illness, or old age (Wiedemann, 2023). He suggests that credit markets mimic these welfare state functions in three key respects. Rather than reallocating resources among people, credit markets distribute resources over time, allowing individuals to access their future income in the present.

Credit markets provide individuals with financial liquidity through a range of mechanisms, including credit cards, bank loans, payday loans, overdrafts, and home equity loans, which assist in addressing financial deficits. Unlike welfare states that socialize risks and diminish individuals' dependence on the market (Esping-Andersen, 1999), reliance on credit increases market dependency, as repaying debt necessitates a stable future income (Wiedemann, 2023).

3.2 Household debt

Financialization has significantly reshaped global economies by expanding the role of financial instruments into various sectors of life. This change is particularly evident in the financialization of households, which is marked by increased household debt and deeper integration of households into financial markets. This phenomenon not only indicates the growing dominance of the financial sector but also underscores the rising dependence of non-financial companies on financial

services and their enhanced involvement in financial markets (Birdal et al., 2023). The establishment of a financial system that embeds individual households into financial markets involves households emerging as both investors and debtors, leading to higher levels of household debt and (De Vita & Luo, 2021). Additionally, financialization has been linked to shifts in welfare provision, the pursuit of status goods like housing, rising inequality, and a greater dependence on credit (Ahlquist & Ansell, 2017; Frank, 2013; Rajan, 2010; Wiedemann, 2021, 2023).

Over the past fifty years, advanced economies have witnessed a steady increase in the ratio of household debt to GDP (Jordà et al., 2016). However, this trend is not limited to advanced economies alone. In developing countries, there has been a growing trend of financial innovations that have expanded access to the financial system for a larger portion of the population, particularly as debt holders. (Demirgüç-Kunt & Klapper, 2012; Gabor & Brooks, 2017; Mader, 2015; Soederberg, 2014). Bahadır and Gümüş (2016) show that many emerging economies have experienced a similar upward trajectory in household debt-to-GDP ratios since the early 1990s. Moreover, following the global financial crisis, many governments in emerging markets have actively contributed to rising debt levels among households and businesses through large-scale credit expansion initiatives (Cong et al., 2019).

Research on advanced economies has shown that household financial liabilities encompass a wide range of debts, including credit card and student debt, although mortgage debt remains the predominant category (Montgomerie, 2009; Sparkes & Wood, 2021; Wiedemann, 2021). The period following 1945 saw a rapid increase in mortgage lending in advanced countries, often referred to as the "democratization of leverage" (Jordà et al., 2016). However, unsecured debts such as credit card debt, overdrafts, and personal loans are more commonly used to

address immediate financial needs (Montgomerie, 2013b; Wiedemann, 2021). This trend, driven by both private and governmental initiatives, has enabled people in various countries to afford services and commodities they otherwise might not have been able to (Gonzalez, 2021). Increasingly, lower and middle-income households rely on these forms of debt to finance their consumer purchases (Pacek & Radcliff, 1995).

As financialization progressed, credit cards emerged as essential financial tools for households to manage short-term liquidity needs and consumption. Political economy literature acknowledges the sharp increase in demand for credit cards and similar financial products over recent decades. Scholars argue that as real incomes have lagged behind productivity and the cost of living, credit cards have bridged the resulting financial gap (Wherry & Chakrabarti, 2022). Low-income consumers, especially those facing financial constraints, often rely heavily on their available credit to meet essential needs and handle unexpected emergencies that arise within their households or among their extended family members. (Mann, 2008; O'Brien, 2012; Pugliese et al., 2021; Wherry et al., 2019).

Turkey mirrors this global phenomenon, as financialization has been a key feature of economic transformation in the 2000s. As a result of economic challenges such as unemployment and declining real wages, many Turkish households have resorted to consumer loans and credit cards in order to maintain their living standards. This has led to a decrease in the percentage of mortgage debt within overall household debt. Birdal et al. (2023) highlight a significant difference in the composition of household debt between Turkey and OECD countries: whereas mortgage debt comprises approximately 66% of total household debt in OECD countries, it accounts for only about 28% of total household debt in Turkey, despite

recent increases. This disparity is partly due to the underdeveloped financial markets, particularly the secondary mortgage market (Çelik & Karaçimen, 2017). Additionally, the significant share of consumer loans suggests that a large segment of the population relies on borrowing to cover their daily expenses or to refinance their current debts.

3.2.1 Debt-financed consumption behavior

Economists have long attempted to elucidate consumer behavior, as consumption spending constitutes a consistent and substantial portion of aggregate demand, accounting for approximately two-thirds of GDP in most countries. In Turkey, consumer spending has consistently accounted for around 70 percent of GDP since 2003 (Albayrak, 2020). Traditional theories of consumption view consumers as isolated, utility-maximizing individuals reacting to changes in prices and wealth, without considering "socially determined preferences" (T. Palley, 2010). These theories assume that consumers are rational and forward-looking, forming plans to maintain a stable standard of living over their lifecycle, which should result in stable consumption and savings rates (Cynamon & Fazzari, 2008; Levine et al., 2010). Thus, effective credit markets allow households to borrow in order to maintain stable consumption during periods of temporary income shocks.

The Keynesian aggregate consumption theory, which became prevalent after World War II, posits that current consumption is determined by current disposable income. As income increases, both the marginal and average propensities to consume tend to decrease. Scholars have recognized that these traditional approaches do not adequately explain consumption behavior, particularly in the "consumer age" (Cynamon & Fazzari, 2013; Ravina, 2005), as they do not account for social

influences on consumption behavior (T. Palley, 2010) and fails to explain why households have increasingly consumed beyond their incomes in recent decades. Additionally, conventional theories ignore the relationship between income inequality and aggregate personal consumption, assuming individuals are indifferent to the income and consumption of others (Cynamon & Fazzari, 2013; Van Treeck, 2014).

To address these gaps, scholars have incorporated Duesenberry's (1949) relative income hypothesis into post-Keynesian frameworks, arguing that income inequality significantly drives household borrowing and debt accumulation (Barba & Pivetti, 2008; Brown, 2008; T. I. Palley, 2002; Van Treeck, 2014). Duesenberry's hypothesis proposes that consumption behavior is influenced by the consumption standards of one's reference group, indicating a social interdependence in how people make their consumption choices. This leads to consumption decisions that are independent of personal income and price considerations. Setterfield and Kim (2016) emphasize that credit facilitates autonomous consumption, disconnecting household spending from income, as households emulate contemporary consumption standards. The tendency to emulate higher-income individuals, known as the consumption emulation effect, drives "expenditure cascades" (Levine et al., 2010; Verme, 2013). This behavior, often referred to as the "keeping up with the Joneses" effect, indicates that people consume to gain or maintain social status, even if their income stagnates (Bertrand & Morse, 2016; Frank, 2013; Levine et al., 2010). The relative income hypothesis also suggests that consumer behavior is influenced by past consumption patterns, a phenomenon referred to as habit formation or habit persistence (Marglin, 1984).

Cynamon and Fazzari (2008) propose an extension of Duesenberry's hypothesis to analyze the current dynamics of household behavior. This suggests that consumer preferences are shaped by social contexts, as households learn consumption habits from their reference groups. Today, these groups extend beyond immediate social circles to include influences from advertising and mass communication. Today, these groups have expanded beyond close-knit social circles and now encompass influences from advertising and mass communication. As a result, households are exposed to the consumption habits of more affluent groups. They argue that this shift in norms has been instrumental in the rise of consumer and household debt in the United States. Empirical research, primarily from developed countries, supports these findings. Alvarez-Cuadrado and Japaridze (2017) found that in the United States, higher-income individuals tend to have lower debt-to-income ratios, while the consumption habits of wealthy households contribute to increased consumption among others. This ultimately leads to a rise in aggregate borrowing as income inequality grows.

Christen and Morgan (2005) highlight that rising income inequality has contributed to increased consumer borrowing, particularly for conspicuous consumption, noting that household indebtedness is more responsive to changes in income inequality than to changes in interest rates. Inequality impacts all components of household debt but has the strongest effect on non-revolving debt, such as installment loans for consumer durables. Further evidence from Krueger and Perri (2006), Ravina (2005), and Charles, Hurst, and Roussanov (2009) supports the notion that household consumption expenditure is influenced by their relative community position and the inequality within it. Abdel-Ghany, Silver, and Gehlken

(2002), using Canadian data, also find that both permanent and relative income considerations are significant in determining consumption expenditures.

3.2.2 Interest rates

Interest rates are crucial in shaping the cost of borrowing, which in turn affects both consumption and debt levels. As interest rates change, they directly influence the financial health and consumption behavior of households, especially those dependent on credit. The literature analyzing the impact of interest rates on consumers shows that individuals are particularly sensitive to fluctuations in interest rates and changes in credit limits, with downward adjustments benefitting those facing liquidity constraints (Agarwal & Zhang, 2015).

Flodén et al. (2021) studied the effect of changes in the Swedish policy rate on household debt-to-income ratios and found that rising interest rate expenditures led indebted households to reduce their consumption. Specifically, they find that, when the central bank raised its policy rate by one percentage point, the average household with debt equivalent to one year's disposable income reduced their consumption spending by approximately 0.23 percentage points compared to a similar household without debt. Similarly, La Cava et al. (2016) explored the cash-flow channel in Australia, finding that significant declines in interest rates during the financial crisis prompted a stronger response in durable consumption among borrowers than savers, particularly for those with variable interest rate debt.

3.3 Political implications

3.3.1 Credit cycles and credit markets

Political economy scholars have long been interested in the frequency with which politicians manage the economy to maximize their electoral prospects. This phenomena, known as political business cycles, was initially articulated by (Nordhaus, 1975). Although monetary and fiscal policies are commonly emphasized by scholars, there are other policy levers that can also be utilized to gain electoral advantage. Governments can stimulate credit through both demand-side and supply-side interventions (Kern & Amri, 2021). Politicians generally find it advantageous to ease credit access, especially before elections (Kern & Amri, 2021). Incumbent governments might fear punishment for failing to ensure credit availability (Antoniades et al., 2016). Thus, the interplay between interest rates, consumption, and credit feeds into broader credit cycles, often driven by political and economic factors. These cycles, in turn, influence credit availability and cost, shaping voter behavior and economic stability.

Various single-country studies have shed light on the phenomenon of politically motivated excess lending. For instance, (Cole, 2009) examined this issue in India, while (Khwaja & Mian, 2005) focused on Pakistan. In a more comprehensive analysis, Kern and Amri (2021) explored the relationship between election cycles and credit cycles across 165 countries from 1960 to 2013. Their findings provide systematic evidence of what they refer to as “political credit cycles.” Their findings suggest a notable rise of approximately 0.1 standard deviations in borrowing, both in the public and private sectors, during election years. Furthermore, when incumbent governments have a majority stake in banking assets,

this effect is three times greater. Additionally, they discovered that there is a lower frequency of political credit cycles in economies that are financially open.

On the supply side, incumbent governments have the power to encourage financial intermediaries to boost lending, often using conventional monetary tools like decreasing bank reserve requirements and lowering policy interest rates. In a cross-national study, Dinç (2005) found that state-owned banks in emerging economies exhibit a substantial increase in their lending activities during election years, surpassing the lending growth observed in private banks. There are several reasons for this preference. First, household debt can boost short-term economic growth. When borrowing is easier, citizens spend more on goods and services, potentially increasing business revenues, profits, and employment, thereby boosting economic growth. Note that, in Turkey, notable growth rates have been achieved through enhanced credit accessibility. The country's debt-driven consumption model relies heavily on domestic demand to fuel economic growth. Second, lower interest rates reduce the cost of repaying loans, meaning individuals might spend less monthly on debt repayments, even if their overall debt increases. In addition, credit markets provide a means for politicians to respond to societal needs when there are limitations on fiscal capacity. This is achieved by increasing access to credit, thereby avoiding politically contentious fiscal redistribution measures (Bonica et al., 2013; Krippner, 2012; Trumbull, 2014). This strategy increases a politician's chances of re-election (Kern & Amri, 2021).

It is worth noting that credit markets often serve as substitutive role in weak welfare states, which may have implications for the political landscape by potentially fostering greater divisions. In weak welfare states, lower-income individuals often find themselves relying on private coping strategies to navigate economic challenges,

as opposed to receiving assistance from the government. Meanwhile, those in the middle and upper classes may favor lenient credit systems that provide private alternatives to public welfare programs, giving them the ability to bypass the comprehensive welfare state (Busemeyer & Iversen, 2020). There has been a longstanding tradition of linking economic policy preferences to self-interest (Boix, 1998; Clegg, 2004; Esping-Andersen, 1979; Iversen & Soskice, 2001). For example, Ansell (2014) argues that as asset owners become wealthier, their inclination to endorse expenditures on social security diminishes. It is easy to see that indebted voters and those who lend to them have very different economic interests. A recent survey indicated that a significant percentage of households in Turkey had insufficient savings and would not benefit from rising interest rates. This suggests that borrowers outnumber lenders by a significant margin, leading to more pessimistic economic expectations when interest rates rise. In Turkey, it is observed that many households at the lower end of the wealth distribution have negative wealth and substantial credit card debt. This differs from advanced countries where debit cards are more prevalent and credit card debt is less common.

3.3.2 Dual interests of voters

Economic interests can diverge when debt levels rise faster than income. Interest rates play a crucial role in influencing repayment costs for borrowers. For indebted voters, higher interest rates increase borrowing costs, worsening their financial situation. In contrast, savers and lenders benefit from higher interest rates through better returns on savings. The overall effect on economic expectations depends on the balance between these two groups. A large portion of the lower and middle class in Turkey still exhibits hand-to-mouth behavior, with limited financial savings and

living paycheck to paycheck. Hence, a significant increase in debt levels renders interest rates of utmost importance for the welfare of citizens. The indebted lower-class benefits from decreasing interest rates, which can encourage voters to accept inflation and weak income growth if the gains from falling interest rates outweigh the losses from poor labor market conditions.

Turkey is among the OECD countries with the highest levels of income inequality. This context is crucial when considering how debt and credit policies impact political and economic stability. The Central Bank of Turkey's policy of lowering interest rates and expanding credit aimed to alleviate the burden of repaying debts on low-income households, hence stimulating further consumption spending. The objective was clear: to mobilize popular support.

3.3.3 How do borrowers respond?

These insights lead us to consider the political behavior of voters whose consumption is debt-financed. When voters become debtors, do they hold governments accountable for economic neglect? Wiedemann (2022) examines this issue within the framework of austerity, highlighting that these policies have resulted in extensive discontent with democracy, protests, and electoral backlash in many countries (Genovese et al., 2016). Austerity policies, with their potential to undermine social status and cultivate animosity, have a role in the diminishing influence of mainstream political parties and the ascent of far-right political factions (Cramer, 2016; Gidron & Hall, 2017; Hochschild, 2018). Feelings of economic insecurity and political neglect incite emotional animosity among those who perceive themselves as being left behind, causing them to shift their support from current officeholders to anti-establishment political parties (Cramer, 2016; Hochschild, 2018). Indebtedness,

especially when borrowing is done to acquire necessary goods and services, can provoke feelings of wrath and hatred towards political parties in a similar manner (Wiedemann, 2022). According to Wiedemann's research, voters in constituencies with greater levels of unsecured debt caused by austerity measures are more inclined to participate in politics and hold the incumbent parties, such as the Tories and Liberal Democrats, accountable for their actions while in power during that period.

While this explanation is relevant for developed countries, indebtedness may not have the same impact in developing countries due to several factors. First, the economic structures and social safety nets in developing countries are typically weaker or nonexistent compared to developed nations. Consequently, political dynamics and institutional trust differ; voters in developing countries often have lower expectations of their governments and are more accustomed to economic instability, making them less likely to directly attribute their economic hardships to specific government policies.

Given these differences, it is essential to consider the effects of non-austerity-induced indebtedness in developing countries. While austerity-induced indebtedness leads to political backlash in developed countries, non-austerity-induced indebtedness, resulting from wage stagnation or external economic shocks, can result in different reactions in developing contexts. Political economy literature suggests that indebtedness in developing countries often arises from systemic issues. These forms of indebtedness can still lead to political discontent and instability, but the mechanisms and outcomes may differ from those seen in the context of austerity.

Do lower-class voters see government interventions in the credit market as mechanisms to alleviate financial shortfalls and to sustain their standard of living? Have these interventions led to the development of policy preferences that push

governments to make credit more accessible? It is reasonable to suggest that such preferences began to take shape during the financialization era. This assertion carries as much significance as the widely accepted belief in the literature on economic voting that voters are cognizant of the influence of public spending on their welfare and acknowledge that government's ability to manage business cycles. The idea that this significantly affects electoral behavior is supported by the expanding literature on political credit cycles, which demonstrates that pre-election credit expansions do indeed influence voter preferences (Pacek & Radcliff, 1995).

Why do debtors increase borrowing in response to strategic credit-enhancing policies despite the future risks involved? While myopic voters might reward successful easy credit policies, would this strategy not fail with rational voters? Kern and Amri (2021) provides several explanations for why this is not true. Firstly, rational voters/borrowers may vary in their approach to discounting the likely effects of future consequences. The short-term advantages of debt-fueled expansions, such as smoothing out consumption, are experienced immediately, whereas the costs, like unsustainable indebtedness and vulnerability to financial crises, tend to emerge at a later stage (Rajan, 2010). Voters may easily overlook long-term costs, especially if these are uncertain (Kern & Amri, 2021). Secondly, there is extensive evidence showing that frequently lack the ability to accurately anticipate the individual risks from their indebtedness or grasp the broader implications for financial stability resulting from their borrowing habits (Korinek, 2011). Individuals and firms often fail to fully grasp the potential risks that come with their actions in the credit market (Klapper et al., 2015; Zinman, 2015). As an example, a study conducted by Klapper et al. (2015) revealed that a majority of credit card holders lack a complete understanding of how interest compounding can greatly impact their overall debt.

Thirdly, even when households being cognizant of the potential risks, they may nevertheless engage in excessive borrowing to uphold or attain a higher social status (Ahlquist & Ansell, 2017; Georgarakos et al., 2014; Schmid & Drechsel-Grau, 2014). As previously said, in order to "keep up with the Joneses," a significant number of households with lower and middle incomes may demand more credit than they can genuinely afford, giving in to the temptation of readily available credit options.

CHAPTER 4

THE CONTEXT OF TURKEY

4.1 Economic context

From the mid-1990s onwards, there has been a global rise in the amount of credit being extended to households. Turkey has been a part of this trend since the 2000s (Bahçe et al., 2016; Bahçe & Köse, 2016; Karwowski & Stockhammer, 2017; Lapavitsas, 2009; Santos, 2009). At the same time, households have been increasingly relying on bank loans, including short- and long-term consumer credit and credit cards. From 2003 to 2012, the consumption levels of Turkish society grew more rapidly than their income (Albayrak, 2020). Nevertheless, previous research has yet to investigate how household consumption and debt patterns and their position in the income distribution (Albayrak, 2020). Many scholars in this field have recently adopted theories of consumption behavior based on the relative income hypothesis to better understand the impact of income distribution on household debt and consumption patterns.

This hypothesis expands upon the principles of Keynesian consumption theory, suggesting that the level of current consumption is influenced by the amount of current disposable income. It posits that as income increases, both the marginal and average propensities to consume decrease. The lack of demand drag realization, despite expanded household debt opportunities, prompted researchers to seek alternative explanations for why consumers exceed their financial capacities (Onaran & Stockhammer, 2005; T. Palley, 2010; T. I. Palley, 2009; Setterfield, 2010, 2012).

From the 1980s onward, Turkish household consumption patterns underwent significant transformations due to various factors such as globalization, technological

advances, and rapid urbanization. This era was characterized by market reforms with the goal of further integrating Turkey into global markets. This could be achieved by enhancing international competitiveness through a more flexible labor market and reduced labor costs. Since the 1980s, Turkey has implemented strategies aimed at promoting export-driven economic growth. This has been achieved mainly through the deliberate suppression of real wages, resulting in a decrease in the share of real wages in the overall income distribution (Boratav & Yeldan, 2006; Onaran & Stockhammer, 2005; Oyvat, 2010; Yeldan, 2007).

The Post-Keynesian literature, particularly the study of Onaran and Stockhammer (2005), demonstrates that in Turkey, a wage-led economy, reducing the wage share did not foster accumulation, economic growth, or employment. Instead, it resulted in a growing disparity between real wages and productivity, along with a lack of strong domestic demand throughout the period after the 1980s. Oyvat (2010) provides more evidence supporting the notion that lowering wage shares in the manufacturing sector, with the aim of improving competitiveness in global trade during the 1980s, has had an impact on functional inequality. Real wages have remained below unit productivity despite relative improvements in income distribution during the AKP era, largely due to social transfer programs targeting the lowest income brackets (Albayrak, 2013; Yılmaz, 2015). Post-Keynesian researchers emphasize the growing disparity in income levels, particularly in relation to consumption behavior, which is explained by the relative income hypothesis. They view this as a major contributor to the accumulation of debt prior to the Great Recession.

Another factor that has contributed to the stagnation of real wages in Turkey is the phenomenon of jobless growth. Despite increased manufacturing production,

there was a lack of corresponding job creation, which further widened the gap between productivity gains and wages. According to Yeldan (2011), there was a significant disparity between the growth of real manufacturing production and manufacturing employment from 2008 to 2012. While production increased by 30 percent, employment only rose by 5 percent. In their study, Akgündüz, Aldan, Bağır, and Torun (2018) analyze sector-specific labor productivity and real wages in Turkey from 2009 to 2017. Their findings reveal that despite productivity improvements across all sectors following the global crisis, real wages experienced a downward trend and consistently lagged behind labor productivity throughout the period.

After the 2001 crisis, which severely impacted the economy, Turkey implemented extensive banking reforms. Before 2001, the banking system's total assets primarily consisted of government debt. The central bank's role in financing public debt played a significant role in driving up inflation rates during the 1990s. Post-crisis reforms were implemented to curb inflation through fiscal discipline and monetary tightening. These measures involved the prohibition of government borrowing from the central bank. These reforms, combined with favorable global liquidity conditions, resulted in lower inflation and decreased interest rates on government bonds. As a result, banks redirected their attention from government debt instruments to private lending activities (Türel, 2010). Supply-side factors in the financial system played a crucial role in enabling debt-driven consumption for households.

Additionally, during this period, wage increases were largely aligned with the inflation targets set by the central bank (Birdal et al., 2023). Nevertheless, the targets set for inflation were frequently surpassed, resulting in a decrease in the wage earners' purchasing power. Consequently, households increasingly relied on bank

loans to offset real wage losses and maintain their living standards in a more flexible labor market characterized by high unemployment and job insecurity (Karaçimen, 2014). Employed individuals whose real wages lagged behind productivity levels compensated for this through debt (Albayrak, 2020). Karaçimen's (2015) fieldwork in Istanbul supports these observations.

From 1988 to 2023, there was a significant increase in the share of wage earners in total employment in Türkiye, rising from 40% to nearly 72%. This significant shift in employment structure also reshaped banks' loan portfolios, emphasizing lending to wage earners (Birdal et al., 2023). Consequently, banks shifted their focus towards consumer lending and implemented aggressive marketing strategies to target the consumer credit market (Akçay, 2017).

Changing consumption patterns were another major driver of rising household debt. This period marked a shift in consumer behavior in Turkey, with a greater reliance on bank loans (Öztay, 2021). Research suggests that lower-income households tend to allocate a larger portion of their earnings towards consumption and are more prone to accumulating debt (Albayrak, 2020). Thanks to a stronger banking system and a positive global liquidity environment, credit expansion was made possible, leasing to a household debt ratio of 17.4% by 2020 (Birdal et al., 2023).

As a result, since 2003, Turkish households have become heavily indebted. By 2005, almost three-quarters of households had either mortgage or non-mortgage consumer debt, a figure that rose to 77 percent by 2012 (Albayrak, 2020). This period saw a sharp rise in consumer credit (Ersoy, 2016). There is a correlation between income levels and the percentage of families with non-mortgage consumer debt. It appears that low-income households have relatively more access to short-

term credit options like auto loans and credit cards. In contrast, households who hold mortgages tend to be more concentrated in the middle-income brackets. This is primarily because of the stringent regulations surrounding mortgage credit, which necessitate a down payment of 25 percent of the property's worth. This trend implies that during economic downturns characterized by widespread job losses and delayed wage payments, Turkish households increasingly relied on consumer loans and credit cards, often finding themselves ensnared in a spiraling debt trap (Karaçimen, 2015). Furthermore, there has been a significant increase in the proportion of consumer and housing loans taken by wage employees, rising from 30% in 1997 to 73% in 2023. By 2012, 85 percent of households with a working head were in debt, up from 80 percent in 2005 (Albayrak, 2020).

Albayrak's research indicates that there is a clear negative relationship between household consumption and the relative income indicator, even when taking income account. Additionally, there is a positive correlation between household consumption and income inequality within the reference group, corroborating existing studies. By the end of the 2000s, debt opportunities allowed nearly all societal segments to elevate their consumption levels beyond their incomes. Unlike developed countries, Turkey's period of debt-fueled consumption coincided with a mild decline in household income and consumption inequalities from previously high levels. Albayrak (2013) demonstrates that, absent public transfers, the market income growth of low-income groups in Turkey did not keep pace with the average income growth between 2003 and 2010. Despite an overall downward trend in income distribution inequality during this period, specific subgroups, such as those in Istanbul and the South and Northeast Anatolia regions, experienced increased inequality.

In their study, Cynamon and Fazzari (2008) explore the impact of supply-side developments in credit markets on household consumption behavior. They highlight how these developments have enabled households to aspire to higher levels of consumption compared to their incomes. Parallel developments and their impacts on consumption in Turkey are also examined by Karaçimen (2015) and Agarwal, Hadzic, and Yıldırım (2015).

4.2 Political context

In societies where identity-based issues are prevalent, promoting inter-group cooperation can be quite difficult, especially when political parties and their supporters are aligned with these same societal divisions. Turkey stands out as a clear demonstration of a divided society, with recent events shaped by ongoing discussions on secularism versus religiosity and modernity versus tradition. These discussions commonly expand into the realm of politics. While not all social and political concerns in Turkey are centered on secularism (such as the ongoing Kurdish issue), the current institutional framework tends to view disagreements through the perspective of the secular-conservative divide. Aydoğan (2020) underlines the importance of the religion/secularism divide as the primary aspect in Turkey. Ample evidence points to the fact that the divide between secularism and religious conservatism is a major determining factor in individuals' self-identification on the left-right political spectrum, as highlighted by Çarkoğlu and Kalaycıoğlu (2010). Scholars often perceive the notions of 'left' and 'right' in politics as fluid and malleable, without a concrete definition. Multiple studies have shown that voters' understanding of these terms differs across countries and changes over time (Freire, 2006; Freire & Belchior, 2013; Jahn, 2010; Schmitt & Eijk, 2009; Zechmeister,

2006). Significantly, the interpretation of left-right labels is also subject to variation among political parties. Dalton et al. (2011) note that the designations left and right can hold diverse connotations among different political actors and may also shift over time. According to Wagner and Meyer (2018) and Kriesi et al. (2008) the ideological framework of a political party is formed by its perspectives in the economic and cultural realms. The weight given to each aspect in a political party's ideological stance is contingent upon its relevance to the party itself and the wider political context. In the case that a party and its constituency prioritize the cultural aspect, the party's left-right stance will mostly revolve around cultural issues (Nasr, 2020).

In the context of Turkey, Wegner and Cavatorta (2018) determined that there is little distinction in economic viewpoints among individuals who support various political parties, indicating that the main divide between voters and parties lies in the dichotomy of Islamism and Secularism. This is further corroborated by Yağcı's (2022) analysis of data from the World Values Survey (1990-2018), which reveals that the strongest correlation with left-right self-identification among respondents is their stance on secularism, being only marginally related to their economic attitudes. Consequently, while economic issues are significant in Turkey's political landscape, their alignment with the traditional left-right spectrum is notably weaker than commonly perceived, as argued by Yağcı (2022).

The current body of literature puts forth two main expectations for changes in voting direction during times of notable economic downturns. First, it is expected that in the aftermath of a significant economic downturn, people may display an increased inclination towards backing left-leaning political parties. The left's overall support for increased wealth redistribution and a more extensive social safety net is

the cause of this inclination (Korpi, 2018). Second, an alternative viewpoint suggests that during economic crises, voters may be more inclined to support anti-establishment parties, particularly those on the far right who position themselves as challengers to the existing political system (S. B. Hobolt & Tilley, 2016). The latest research shows that fringe political parties, especially those on the far right, tend to gain from financial crises (Funke et al., 2015; Mian et al., 2014).

However, the extent to which political preferences are affected by economic changes is a key aspect in the larger conversation surrounding the adaptability of these preferences, specifically in terms of the influence of self-interest on them. A significant body of research challenges the assumption that changes in economic standing inevitably influence political attitudes, suggesting instead that previously established ideological beliefs inclined to persist (Krosnick & Alwin, 1989; Newcomb, 1967). Research points to a nuanced dynamic between economic performance and electoral outcomes, influenced by the level of partisanship among voters. In situations where a large portion of voters have strong partisan ties, the importance of economic performance on election outcomes decreases. Many theoretical frameworks for voting behavior portray voting decisions as being determined by the perceived benefits of candidates' policies, and an important factor in this context is often interpreted as partisan loyalty to a specific party (Banks & Duggan, 2005). An often overlooked but significant inference from formal probabilistic voting models is that the level of partisanship has an effect on the benefits or payoffs, which may include improvements in welfare, transfers, or public goods (Kayser & Wlezien, 2011; Persson et al., 2000). Further investigation suggests that individual voting choices are predominantly determined by underlying values and enduring ideological commitments, rather than short-term economic evaluations

(Page et al., 1966). Right-wing nationalism has experienced a significant increase worldwide. The rise of right-wing and extreme-right parties with populist and nationalist ideologies has gained considerable backing from low-income and less educated populations in both high- and middle-income nations. Economic and cultural factors appear to be driving the emergence of these parties (Bardhan, 2022; Muis & Immerzeel, 2017). Empirical research is increasingly highlighting the importance of both economic factors (Autor et al., 2020) and cultural grievances, the latter being influenced by racial and historical contexts (Mukand & Kaplan, 2011; Ochsner & Rösel, 2017).

The resilient support for President Erdoğan, despite economic challenges, indicates that economic conditions are not the sole determinants of voter behavior in Turkey. Other influential factors are at play. Primarily, the role of ideological and identity affiliations is crucial in shaping electoral choices in Turkey, a country characterized by significant political polarization. As a result, the frequency of voters switching their usual party allegiance has decreased (Demiralp & Balta, 2021). A notable observation from 2023 elections was that despite Erdoğan's victory the incumbent AKP loses significant support in its vote share. Despite this, the declining support for the AKP does not benefit the main opposition Republican People's Party (CHP). In a highly polarized political climate of Turkey, the CHP and its leader Kılıçdaroğlu have struggled to connect with undecided voters of the AKP. The deep polarization around the conservative-secular cleavage in Turkey has fostered strong emotional bonds and loyalty to the Erdoğan among its supporters.

CHAPTER 5

EMPIRICAL ANALYSIS OF 2018 AND 2023 ELECTIONS

In my empirical analysis, I conceptualize personal credit card debt as a key indicator of economic relief and employ it as a proxy for assessing economic security. My aim is to identify the particular context of political credit cycles that can alleviate the effects of diminished purchasing power within cities, thereby consolidating support for the incumbent party. By concentrating on policy-level analysis, my research moves beyond the conventional framework of national economic performance.

5.1 Pre-election economic policies in 2018 and 2023 elections

The credit expansion ahead of the 2018 elections, and the subsequent exchange rate crisis and rising inflation, forced the CBRT to raise the policy rate. The policy rate, which experienced a sharp rise from 8 per cent to 16 per cent just before the election, further climbed to 24 per cent in the Monetary Policy Committee (MPC) in September 2018. After an extended period of keeping the policy rate unchanged, President Erdoğan removed the CBRT governor, Murat Çetinkaya, on July 6, 2019. Erdoğan had disagreements with the former Central Bank governor, Erdem Başçı, but when he removed Murat Çetinkaya, it was the first instance in history where he used the authority that the new presidential system provided him. Erdoğan made the following statement regarding his decision to dismiss on November 5, 2019:

> There is no other choice but to cut this interest rate. As this system changes, we also gained the authority to remove the Central Bank governor, and thus we removed the previous governor because he disobeyed.[7] (T24, 2019)

[7] Bu faizi düşürmekten başka çare yok. Bakın şimdi maalesef tabii bu sistemi değişince merkez bankasını görevden alma yetkisini de aldık ve böylece önceki merkez bankasını görevden aldık çünkü laf dinlemiyorlar.

Just 20 days after Erdoğan dismissed Murat Çetinkaya, the CBRT lowered the policy rate by 4.25 per cent to 19.75 per cent. Subsequently, as the currency stabilized and inflation decreased, the CBRT made consecutive interest rate cuts, reducing the policy rate to 11.25 per cent by January 2020. President Erdoğan expressed his views on this current issue during his party's parliamentary group meeting on February 12, 2020, as follows:

> If you remember, as we entered 2019, some were again playing their assigned roles to shatter our nation's hope. According to their script, following the 2018 currency-interest-inflation coup attempt, Turkey was supposed to completely sink, end, and be devastated in 2019. According to them, the USD/TL would reach 10, inflation would exceed 30%, our banks would stumble, and our treasury would go bankrupt. Did any of this happen? Thanks to the decisions we took, the measures we implemented, the resolute stance of our business community, and most importantly, the support of our nation, we once again tore up these disaster scenarios . . . Interest rates fell, neither did the exchange rate spike nor did the market become unstable. (Öztürk et al., 2020) (see Appendix, 1)

Erdoğan's statement indicated the successful implementation of a policy he had been pushing for. Erdoğan consistently claimed that interest rates were the fundamental cause of inflation prior to the 2018 elections. He assured the public and businesspeople in numerous pre-election speeches that he would cut interest rates. In a speech he made in Adana on June 20, 2018, he said the following:

> On the elections, give authority to your brother, and then you will see how to deal with this interest rate and other matters. I'm saying this openly at this meeting, we cannot lift our country up with high interest rates. If we want to empower investors, we have to take this step with low interest rates . . . Japan has negative interest rates. In the United States, it's around 2%, maybe 3%... If their banks can operate this way, why can't ours? Right now, interest rates are reaching 20%, even 25%. Can you invest in a country with such high interest rates? Friends, we will change this, no ifs, ands, or buts. (Diken, 2018) (see Appendix, 2)

During this period when there were signs of recovery in the economy, the onset of the COVID-19 pandemic pushed the economic administration to initiate a new period of credit growth led by public banks, and the CBRT continued reducing policy

rate. The economy suffered from a decline in tourism revenues due to the pandemic, leading the CBRT to use foreign currency reserves to avoid a balance of payments crisis in late 2020, but with the severe depletion of the CBRT's reserves, it was forced to enter another cycle of interest rate hikes (Orhangazi & Yeldan, 2023). Erdoğan considered this situation as a "bitter medicine" that must be taken by increasing interest rate and said that they aim to cut interest rates again later (BloombergHT, 2020). Following the rise in the policy rate to 19 per cent in March 2021, Erdoğan decided to dismiss the existing CBRT governor and appoint Şahap Kavcıoğlu[8], who would push forward Erdoğan's agenda of low interest rates. In September 2021, the CBRT signaled the start of the negative real interest rate period by reducing the policy rate from 19 per cent to 18 per cent, despite inflation rate exceeding 20 per cent (Orhangazi & Yeldan, 2023). In light with this, during the period leading up to the election in May 2023, there was a consistent pattern of interest rate cuts, gradually bringing them down to 8.5 per cent.

5.1.1 Households in pre-2018 vs. pre-2023

The period of AKP leadership from 2002 onwards witnessed a notable surge in household indebtedness as a crucial economic trend. The ratio of household debt to GDP, which was 2% in 2002, reached 20% in 2013. This development was one of the most important drivers of Turkey's economic growth rate in this period. During the initial phase of an economic boom, the expansion of credit stimulates economic growth by raising productivity and consumption, but when credit growth exceeds economic growth, debt repayment struggles, leading to increased macroeconomic

[8] Şahap Kavcıoğlu wrote an article for a newspaper stating that higher interest rates would lead to higher inflation just one month before his appointment. Article is available at: https://www.yenisafak.com/yazarlar/sahap-kavcioglu/enflasyon-faiz-ve-doviz-kuru-2057586

fragility and, eventually, deleveraging when credit growth gears down and reverses. (Orhangazi & Yeldan, 2020)

Economic growth stemming from the credit expansion was primarily driven by low interest rates, however, developments in global markets after 2013 made it difficult to keep interest rates low (Orhangazi & Yeldan, 2023). Akçay and Güngen (ref) examine the initial phase of escalating crisis tendencies that took place between 2013 and 2014. In spite of adverse changes in global financial circumstances and the political stability of Turkey, policymakers chose to postpone the increase of interest rates until January 2014. They further explain that while liquidity from central banks of developed capitalist countries was declining, it was still enough to prevent a recession and gradually lower the funding rate costs of the CBRT in 2014 and 2015, enabling the AKP government to navigate the initial economic challenges of the post-2013 period.

Following the coup attempt on July 15, 2016, the AKP faced challenges due to the negative growth in the third quarter and depreciating currency. The USD/TL exchange rate experienced a significant increase from 2.92 in June 2016 to 3.49 by the end of the year. Before the 2017 referendum, the government launched a comprehensive credit growth to reverse this trend. The CBRT's cuts in the upper band of the interest rate corridor encouraged banks to offer low-interest loans[9] during this period, and the economic management made two consecutive pronouncements about consumer loans. In September 2016, the BRSA relaxed the restructuring conditions for PCCs and general-purpose loans in the regulations, paving the way for consumers to restructure their non-delinquent debts into installments of up to 72 months (Official Gazette of the Republic of Türkiye, 2016). In November, the CBRT

[9] https://www.bloomberght.com/haberler/haber/1929655-ihtiyac-kredilerinde-faiz-dusuyor

lowered interest rates for PCCs by 18 basis points to 1.84 per cent (CBRT, 2016). After the successful referendum in April 2017, the AKP decided to hold early elections in June 2018 and persisted with the credit expansion that had already been underway. Although the CBRT did not change the policy rate despite the jump in the exchange rate since the last quarter of 2017, the 11% depreciation in Turkish Lira in May forced the CBRT to increase the interest rate by 850 basis points in the MPC in June 2018. Even though the CBRT did not raise interest rates until June, an increase in consumer loan interest rates in the market from the last quarter of 2017 led to a slowdown in the growth rate of consumer loans as illustrated in Figure 1 and Figure2.

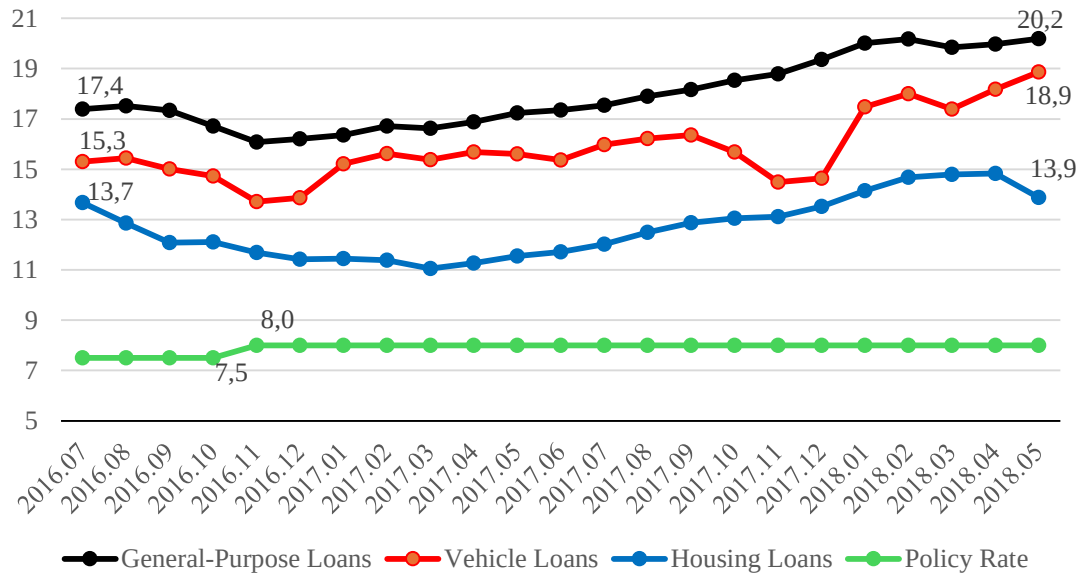

Figure 1. Interest rates of consumer loans 2016–2018 (%)
Source: (CBRT, n.d.)

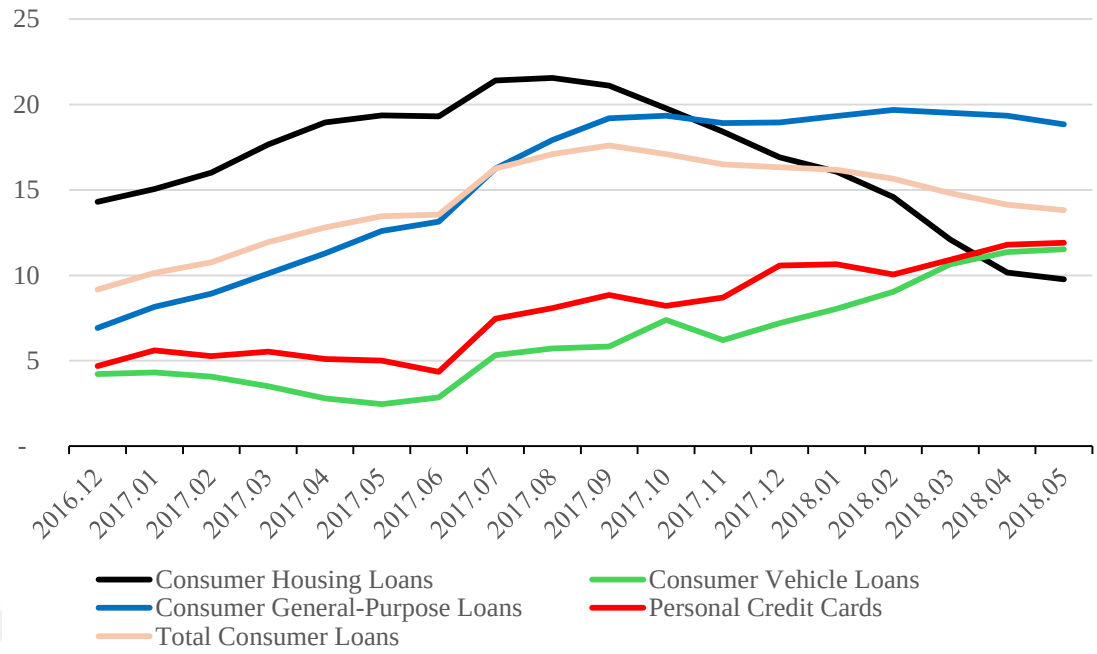

Figure 2. Yearly growth of consumer loans 2016–2018 (%)
Source: (BRSA, n.d.)

Households positively responded to the low-interest rate policy put in place during this period. An increase in housing and vehicle loans led to a subsequent surge in housing and vehicle sales, which persisted until interest rates began to rise (See Figure3). During this period, there was a notable upward trend in general-purpose loans as more people sought to finance durable goods like vehicles and furniture. These general-purpose loans offered lower interest rates compared to PCCs, making them a more attractive option for many.

PCC debt growth increased slightly less than the inflation rate during this period. Figure 4 displays a comparison of annual total amounts for credit card transactions by sector for 2016 and 2017. Basic consumption expenses like food, dining, and grocery shopping have increased above inflation, while electronics have remained significantly below inflation, and furniture and decoration expenses were slightly below inflation. The reduction in the overall credit card balance over the

period I analyze may be attributed to the utilization of general-purpose loans for purchasing durable goods.

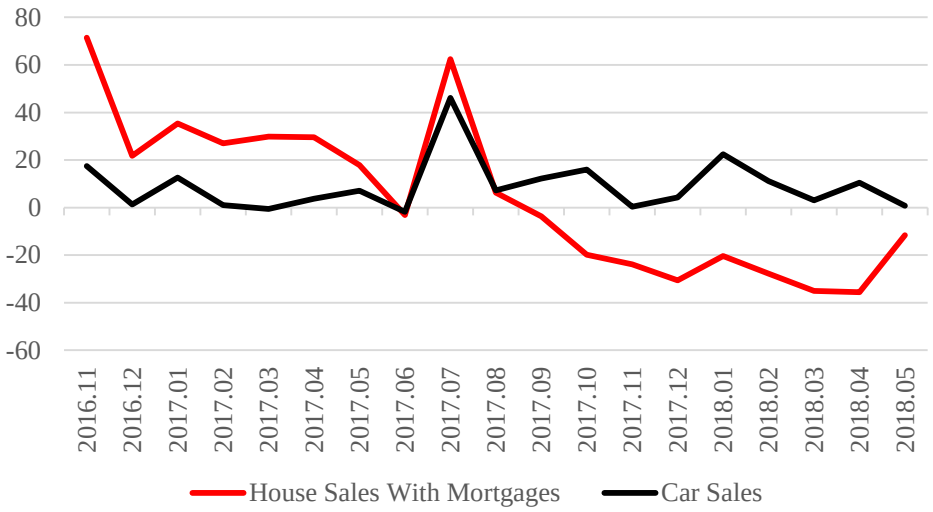

Figure 3. Yearly growth of house and car sales 2016–2018 (%)
Source: (TURKSTAT, n.d.) (Automotive Distributors' and Mobility Association (ODMD), n.d.)[10]

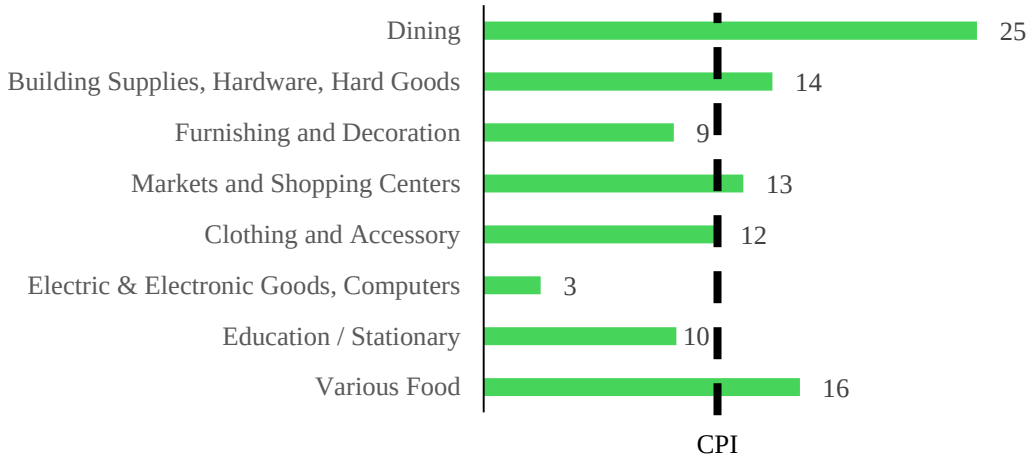

Figure 4. Growth of credit card transactions by sectors 2016 vs 2017 (%)
Source: (The Interbank Card Center (BKM), n.d.)

[10] Car sales include secondhand sales.

When we consider the period before the 2023 election, it appears that the policy rate cuts that started at the end of 2021 were not fully reflected in the credit market. Despite a continuous decrease in policy rates, the interest rates on consumer credits are shown to be increasing, as depicted in the Figure 5. When examining the changes in consumer loans during this period, it is observed that housing loans growth are performing below inflation, while vehicle loans have seen a significant increase due both to negative real interest rates and strong deferred demand caused by supply-side difficulties during the COVID-19 period (see Figure 6). Analysis of general-purpose loans and credit cards reveals that borrowing on credit cards has shown greater strength in comparison to general-purpose loans. Credit cards have become a crucial credit instrument due to their notably reduced interest rates compared to general-purpose loans (CBRT, 2023b). Another indicator demonstrating this is depicted in the Figure 7, showing the increase in PCC debt with installments compared to non-installment debt.

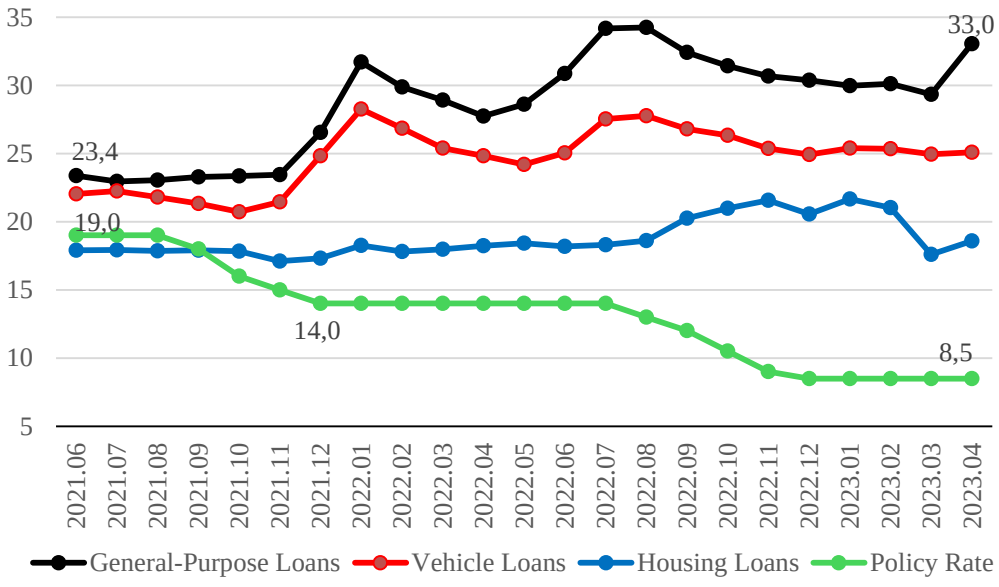

Figure 5. Interest rates of consumer loans 2021–2023 (%)
Source: (CBRT, n.d.)

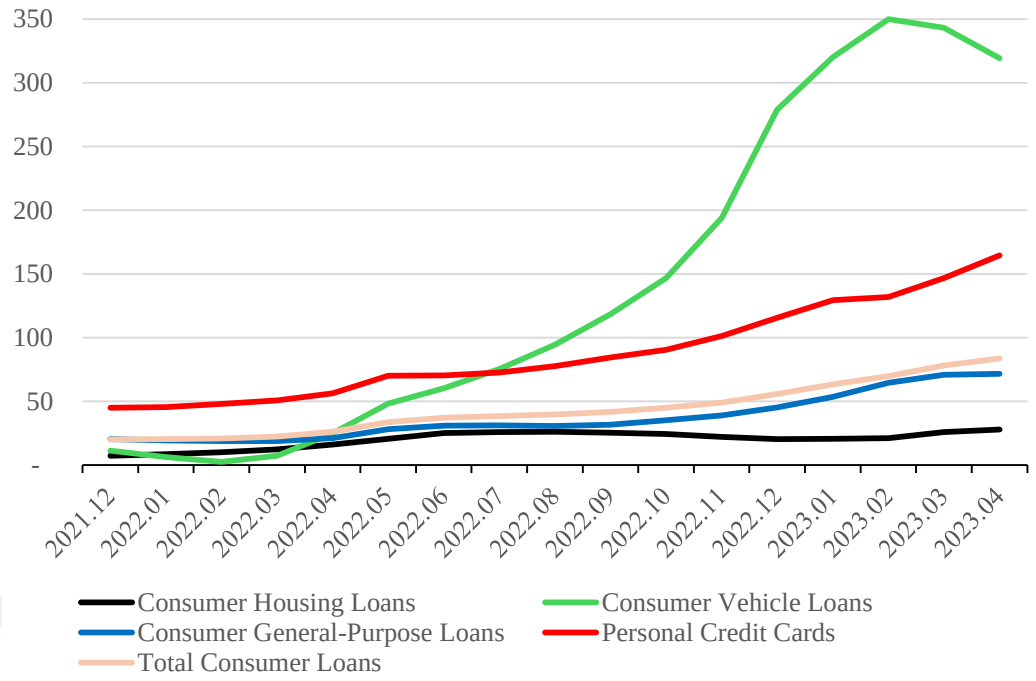

Figure 6. Yearly growth of consumer loans 2021–2023 (%)
Source: (BRSA, n.d.)

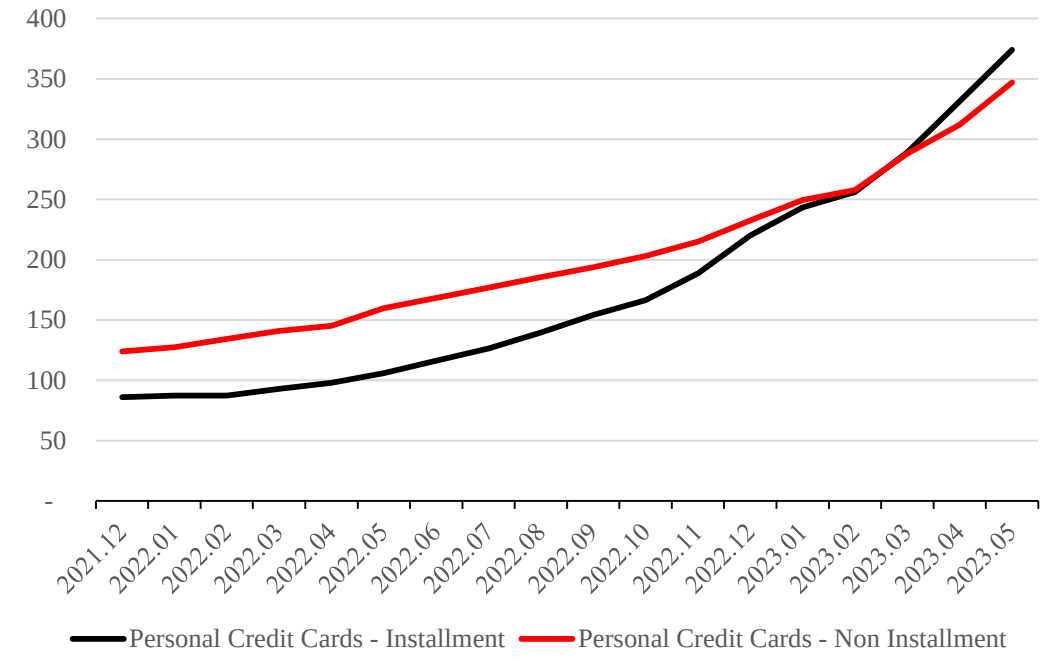

Figure 7. PCC debt installment vs. non-installment 2021–2023 (billion TL)
Source: (BRSA, n.d.)

It would be beneficial to also discuss various important supply-side factors related to PCCs in this timeframe. In addition to low interest rates on credit card, an important factor that increased credit card borrowing was the significant upward adjustments made by banks to users' credit card limits. The per capita card limit tripled from December 2021 to March 2023, as illustrated in the Figure 8. The combination of high-limit credit cards and low interest rates greatly eased the process of household borrowing. Moreover, many banks provided 0% interest credit card cash withdrawals as a strategy to attract new customers during this time.



Figure 8. PCC limit per customer[11]

Figures 9 and 10 illustrate the changes in certain sub-indices of the consumer tendency survey before the elections. As seen in the pre-2023 election graph, the index reflecting durable goods purchases stood at 28 as of December 2021, significantly lower than the values above 60 observed during the previous election period. In fact, since the data for this index began being shared in 2012, the lowest value of 26.7 was recorded in January 2022. Yet, there was a notable recovery in the

[11] Retrieved from Financial Stability Report - May 2023, Volume 36 (CBRT, 2023a)

index before the 2023 election, partially attributed to the influence of credit products with negative interest rates. The semi-durable goods index, on the other hand, is close to its pre-2018 values.

The index reflecting the household's financial situation compared to 12 months ago remained lower in the period before the 2023 election than the values seen before the 2018 election. Despite the decline observed in these indices, the situation of the borrowing probability index is noteworthy; the values during this period are the highest since the index started being reported. Despite the positive conditions for borrowing indicated by the values in this index and the availability of low-interest credit products in a high inflation environment, the low durable goods index suggests that households are facing difficulties with large-scale purchases. This situation is reinforced by the index that mirrors the financial status of households.

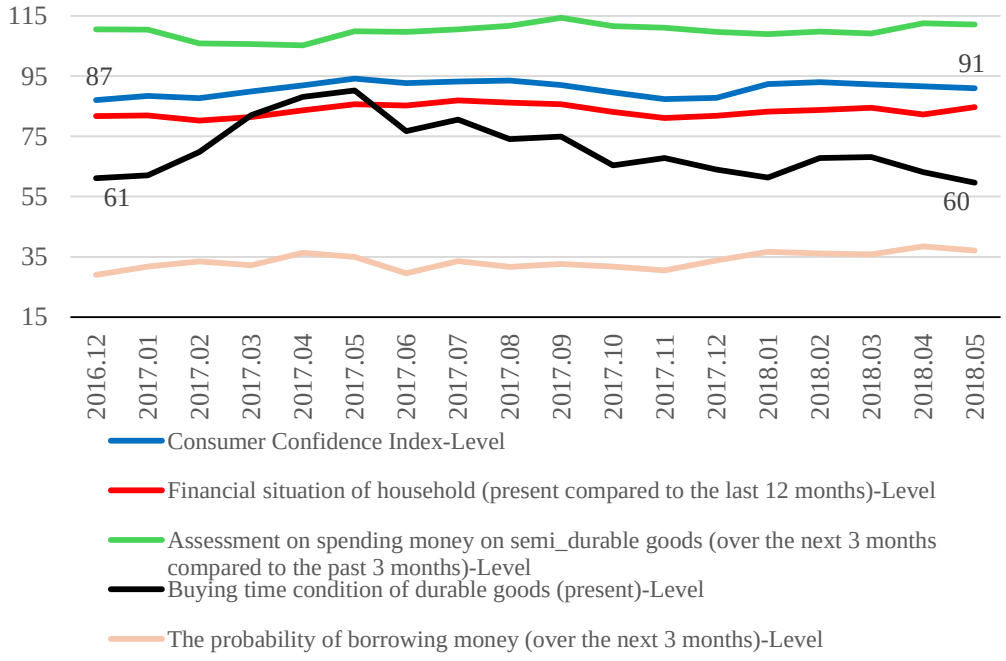

Figure 9. Consumer tendency survey 2016–2018
Source: (CBRT, n.d.)

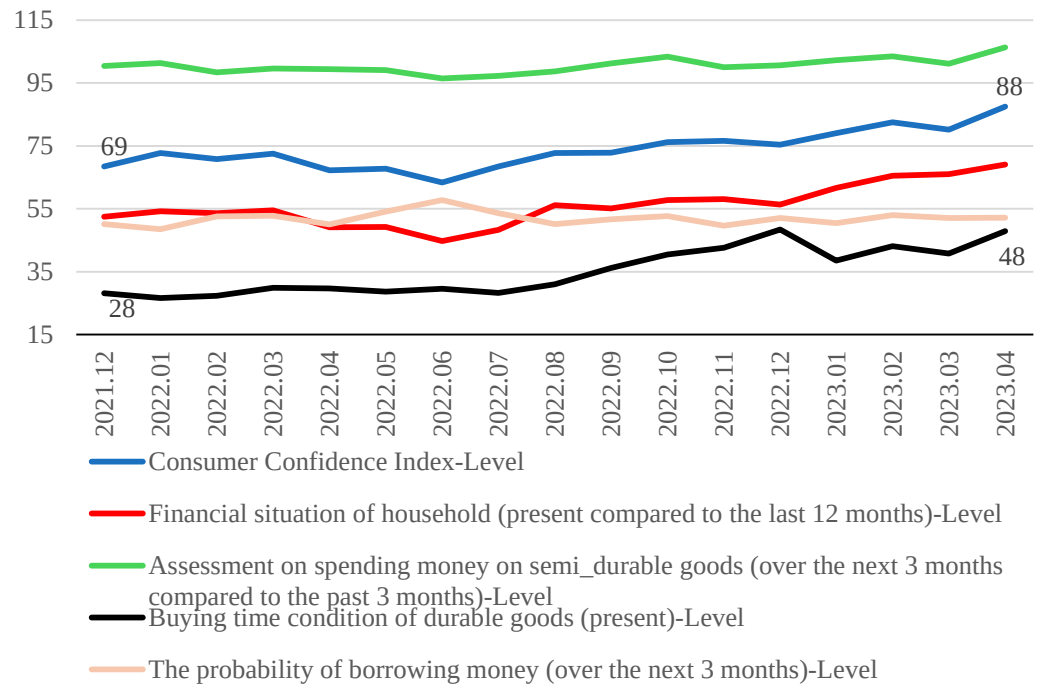

Figure 10. Consumer tendency survey 2021–2023
Source: (CBRT, n.d.)

5.2 Data, variable selection and methodology

The 2018 combined legislative and presidential election became the first instance in which the discrepancy in votes between the AKP and Recep Tayyip Erdoğan, who has been the party's key figure since its establishment, became an important debate of Turkish politics. I can only draw limited inferences about these differences by examining the 2018 elections. The Nationalist Movement Party (MHP), part of the People's Alliance (Cumhur İttifakı), backed Erdoğan in the 2018 presidential elections. A large per centage of AKP and MHP supporters also supported the alliance's choice to elect Erdoğan as president in the initial round. The combined legislative votes of the MHP and AKP in this election amounted to 53.5%, while Erdoğan earned 52.4% of the vote in the presidential election, falling just short of 1.1%. This minor distinction indicates that the overwhelming majority of voters in

both parties also endorse Erdoğan. In the initial round of elections in 2023, Erdoğan experienced a decline of 3.2% in comparison to the previous election, but the AKP had a decrease of 7% in their vote share, dropping from 42.3% to 35.3%.
This significant difference indicates that a portion of the AKP electorate in 2018 switched their voting preference for the party, while still casting their vote for Erdoğan. By calculating the difference between Erdoğan's vote and AKP's vote in a certain city, I can assess and compare the level of support that the AKP received from that city and that of Erdoğan. This value indicates the extent to which Erdoğan's influence is derived from AKP voters. By computing the identical value based on city-level votes for 2018 elections, I obtain a data that I can compare. When analyzing the differences between the two elections, it is observed that in the 2023 elections, a lower value is recorded in 71 out of Turkey's 81 cities.[12] Across these 71 cities, it can be observed that the AKP saw a greater decline in support from 2018 to 2023 compared to Erdoğan's loss of support. The acquired data enabled the study of the underlying mechanisms that drove voters to retain their support for Erdoğan while withdrawing their support for the AKP.

The objective of this research is to use panel data analysis with fixed-effects (FE) to assess the potential relationship between the vote gap for Erdoğan and the AKP in the 2018 and 2023 elections.

The first step of the analysis involves computing the difference between AKP's vote ratio and Erdoğan's vote ratio for each city. The creation of the Erdoğan - AKP vote difference variable for the 2023 elections will be based on Erdoğan's vote in the first round of the election. This decision stems from the fact that in the 2018 elections, there was no need for a second round as Erdoğan gained enough votes to

[12] 10 cities where higher value is recorded: Ankara, Ardahan, Batman, Bayburt, Bursa, Diyarbakır, Iğdır, Ordu, Şırnak and Tunceli.

win. This data is obtained from The Supreme Electoral Council (YSK). The city-level vote share difference between Erdoğan and AKP for both elections can be found in Figure 11 and Figure 12.

For the main independent variable, PCCs debt growth will be used for each city in this study. City-level financial indicators are regularly shared by Banking Regulation and Supervision Agency (BRSA) on a quarterly basis. I will analyze the changes in the last five quarters leading up to each election. I will be examining the growth in PCC debt from December 2021 to March 2023 for the 2023 Elections, as well as the change from December 2016 to March 2018. The latest data I have before each election is the first quarter data of 2018 and 2023, so they will be the end of each timeframe. I will use the data from the end of 2016 and 2021 as the initial starting points for the time periods. As discussed earlier, the last quarter of 2016 marks the period when the AKP initiated a credit expansion. Similarly, the last quarter of 2021 corresponds to the beginning of the negative interest rate period. Moreover, since inflation rates are different for each period, I will adjust credit card debt growth with Consumer Price Index (CPI) in that timeframe.[13]

[13] 2016.12 – 2018.03 CPI Change (%) : 15,2; 2021.12 – 2023.03 CPI Change (%) : 84,8

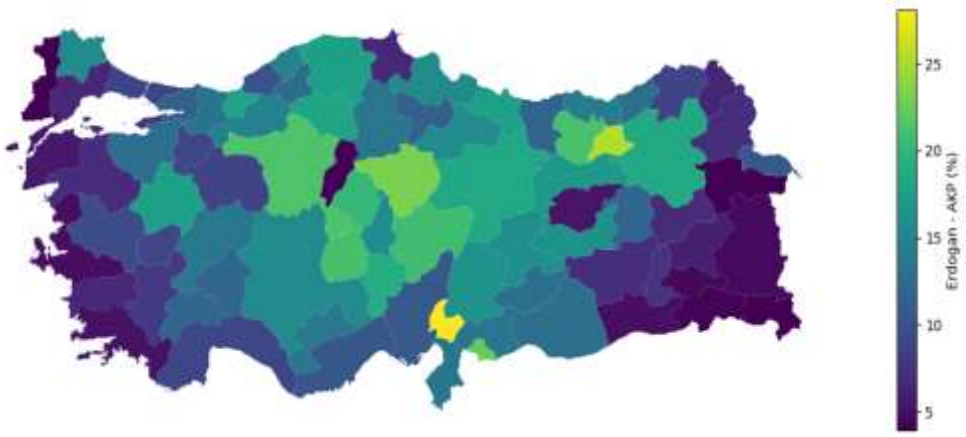

Figure 11. 2018 elections: Erdoğan – AKP vote share

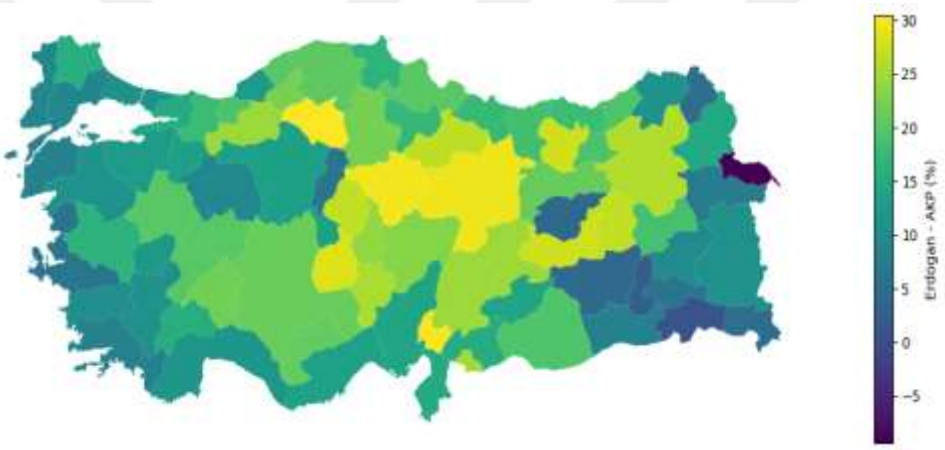

Figure 12. 2023 elections: Erdoğan – AKP vote share

Additionally, I use couple of control variables in my analysis which are earthquake dummy, change in population, change in GDP, GDP, and unemployment benefit applications relative to city population. Earthquake dummy is crucial for this model due to a devastating earthquake in February 2023. The cities of Adana, Adıyaman, Diyarbakır, Hatay, Gaziantep, Kahramanmaraş, Kilis, Malatya, Osmaniye, Şanlıurfa and Elazığ were declared as “Disaster Areas Affecting General Life” (AFAD, 2023). The earthquakes have had a profound impact on populated areas, resulting in severe destruction and the displacement of countless individuals. In accordance with a

regulation issued by the BRSA immediately after the earthquake, the maximum credit card limit was increased and the minimum payment rate on credit cards was reduced for those residing in the disaster area (BRSA, 2023). The measures have improved the borrowing capacity of individuals in the area, leading to a little higher growth in credit card debt compared to other cities. By adding a dummy for earthquake, I aim to control the effects earthquake led. For these cities, earthquake dummy will be 1 in 2023 election data while it is 0 for every city in 2018 data.

City-level data for the population and GDP variables are obtained from TURKSTAT. For 2023 elections, I will consider the variables of population and GDP changes based on data from 2021/12 and 2022/12. For the 2018 elections, the changes between 2016/12 and 2017/12 will be taken into account. Fluctuations in both variables prior to an election could serve as an indication of the job market and economic activity of a city. A city's population may drop due to restricted work opportunities, whereas an increase in GDP can result from more economic output, which in turn can boost employment in the city. The GDP variable will be determined using the most recent yearly GDP statistics before each election and will be used to control economic development in a city over the interval between two election cycles.

To account for the impact of unemployment on voters' behavior, data on unemployment benefit applications will be utilized due to the unavailability of city-level unemployment statistics from TURKSTAT. The data is provided by the Turkish Employment Agency (İŞKUR) and is accessible on a monthly basis for each city. To calculate this variable, the sum of all unemployment benefit applications submitted in the five quarters preceding each election will be divided by the most recent population data available prior to that election.

Descriptive statistics for the variables can be found at Table 1 and Table 2. The two variables that exhibit a notable change in their averages are PCC debt growth and GDP growth. Although the average PCC debt growth is significantly higher for the 2023 elections than for the 2018 elections, the average GDP growth is only half of what it was before the 2018 elections.

Table 1. Descriptive Statistics for 2018 Elections

Statistic	N	Mean	St. Dev.	Min	Max
Erdoğan - AKP Difference (%)	81	12.3	5.7	3.9	28.1
AKP (%)	81	42.8	11.6	13.3	64.3
Erdoğan (%)	81	55.1	15.7	18.7	82.1
PCC Debt Growth (%) [14]	81	-2.2	4.6	-13.2	19.2
Earthquake	81	0.0	0.0	0	0
Unemployment Benefit App. (%)	81	1.7	0.7	0.5	3.5
Population Growth (%)	81	0.8	1.8	-11.4	4.1
GDP (Million TL)	81	21.1	62.8	1.0	541.1
GDP Growth (%)	81	6.9	4.2	-1.8	23.0

Table 2. Descriptive Statistics for 2023 Elections

Statistic	N	Mean	St. Dev.	Min	Max
Erdoğan - AKP Difference (%)	81	16.2	8.0	-9.4	30.5
AKP (%)	81	36.1	8.7	12.1	59.6
Erdoğan (%)	81	52.4	14.7	16.2	78.9
PCC Debt Growth (%)14	81	52.0	10.8	40.2	88.9
Earthquake	81	0.1	0.3	0	1
Unemployment Benefit App. (%)	81	2.2	0.6	1.1	4.1
Population Growth (%)	81	0.4	1.1	-3.8	2.6
GDP (Million TL)	81	26.3	79.4	1.2	682.1
GDP Growth (%)	81	3.1	6.3	-11.0	21.8

[14] Inflation adjusted

Households in Turkey utilize four types of consumer borrowing instruments, including housing loans, vehicle loans, general-purpose loans, and PCCs. Only PCCs will be used in this study, excluding the other three types. Housing and auto loans will be excluded since they are high-cost commodities. There are several arguments for exclusively working with PCCs out of the remaining two products. The first is that credit card debts are thought as a better reflection of households' financial situation when compared to general-purpose loans. There are several factors contributing to this difference between the two products. In the first place, it is evident that the number of credit card users in Turkey exceeds the number of consumer loan users as illustrated in Figure 13. In addition to having less users, general-purpose loans are an effective tool for purchasing high-cost durable goods, therefore, they deviate from reflecting basic consumption expenses. In Turkey, despite the availability of vehicle loans specifically designed for purchasing vehicles, it is common to use consumer loans for this purpose, as some secondhand vehicles are not eligible for vehicle loans due to vehicle age restrictions.[15] The comparison of the average debt among users of the two instruments, reveals that PCC debts are more evenly dispersed. (see Figure 13)

[15] Garanti BBVA which is one of the leading banks in Turkey states: "For second-hand vehicles, we offer credit facilities where the maximum total of vehicle's age and credit maturity will be 144 months." https://www.garantibbva.com.tr/en/loans/auto-loan

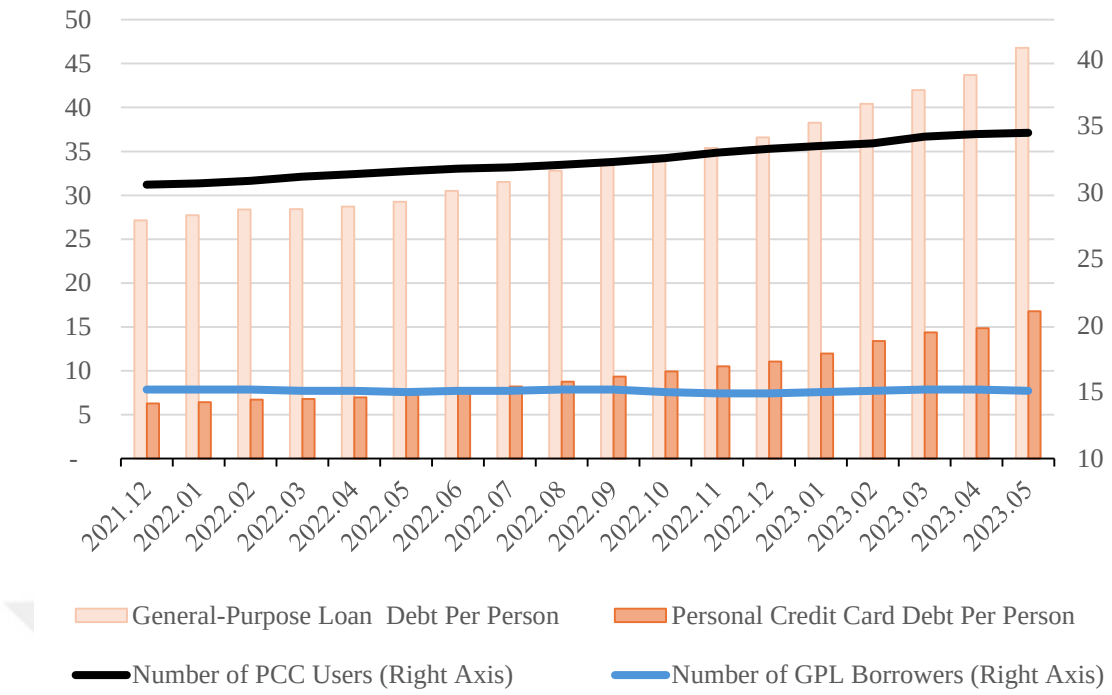

Figure 13. Number of loan borrowers and debt per person (thousand TL, million people)
Source: (The Banks Association of Turkey (TBB), n.d.)

A further aspect is that the credit cards directly reflect the policy rate set by the CBRT. Before 2006, banks had the power to set credit card interest rates. However, in 2006, a decision by the economic administration led to the CBRT taking over the responsibility of establishing the maximum contractual and overdue interest rates for credit card transactions. These interest rates are determined based on a reference rate that is directly linked to the policy rate. Thus, all banks in Turkey apply the same maximum interest rate to all customers who use their credit cards, without any personalized adjustments. Conversely, banks set general-purpose loan interest rates on an individual basis depending on market conditions. In addition to differences among banks, general-purpose loan interest rates can also vary depending on the customer. Customers with low credit scores may face substantially higher interest rates compared to those with high credit scores (QNB Finansbank, n.d.). This

situation also reveals that credit card availability is determined on fairer grounds compared to general-purpose loans.

In Turkey, credit cards are employed not just for making purchases but also for withdrawing cash. Users have the ability to borrow money within their credit limits and can select repay this borrowed amount in installments. Like the credit card transactions, the maximum contractual and overdue interest rates for cash withdrawals are set by the CBRT. Banks typically charge cash withdrawals at the maximum permitted interest rate, although they may offer lower rates during specific promotional periods.

The availability of installment shopping and installment cash withdrawals expands the role of credit cards beyond being a mere tool for immediate consumer spending. Through these functionalities, households can obtain goods without the full payment upfront and choose to pay at a later period. While these characteristics are very similar to the dynamics of using general-purpose loans, credit cards differ from general-purpose loans in terms of debt repayment. At the end of each billing cycle, the combined amounts of non-installment transactions, installment shoppings, and installment cash withdrawals are calculated and displayed to the user as the total debt for that period. To avoid getting closely monitored customer status by banks, users are required to pay at least the minimum payment amount, which is calculated through minimum payment rate set by the BRSA. Making only the minimum payment will trigger contractual interest on the outstanding debt, which will be accumulated and added to the subsequent month’s balance. In Turkey, it is a common practice to pay only minimum amount of monthly credit card debt. A survey conducted among metal sector workers in Turkey by Karaçimen revealed that 29% of participants who have credit cards only pay the minimum amount of their credit card

debt (2013). This method may become more widespread, especially in periods when interest rates are low, as the amount of interest rate expenditure resulting from late payment will not be very high. Unlike consumer loans that require immediate monthly repayment per installment, this alternative to defer payments for credit card debt offers households an attractive borrowing option.

The most notable developments in consumer loans before the 2023 elections is observed in PCC debts. Historically, PCC indebtedness has been significantly lower than general-purpose loans, but in this period, they have reached a similar volume to consumer loans (see Figure 14). Additionally, the fact that PCC debts have exceeded general-purpose loan volumes since the election demonstrates that this is a significant trend in the current household economy.

The empirical examination of how economic shocks influence political preferences presents several challenges worthy of consideration. The primary issue is that economic shocks are seldom randomly distributed. In my analysis, I assess the political leanings of a city by examining the increased discrepancy between the vote shares of Erdoğan and the AKP from 2018 to 2023. This approach reliably identifies cities more inclined to vote for the AKP given the circumstances. While the fixed-effects methodology does not completely resolve the inferential problems caused by lack of randomization, it enables the control of subjects' baseline positions. Rather than individual-level data, I focus on contexts with spatial variations in economic conditions. This approach allows for a nuanced understanding of the political consequences of economic disturbances at a broader, collective level.

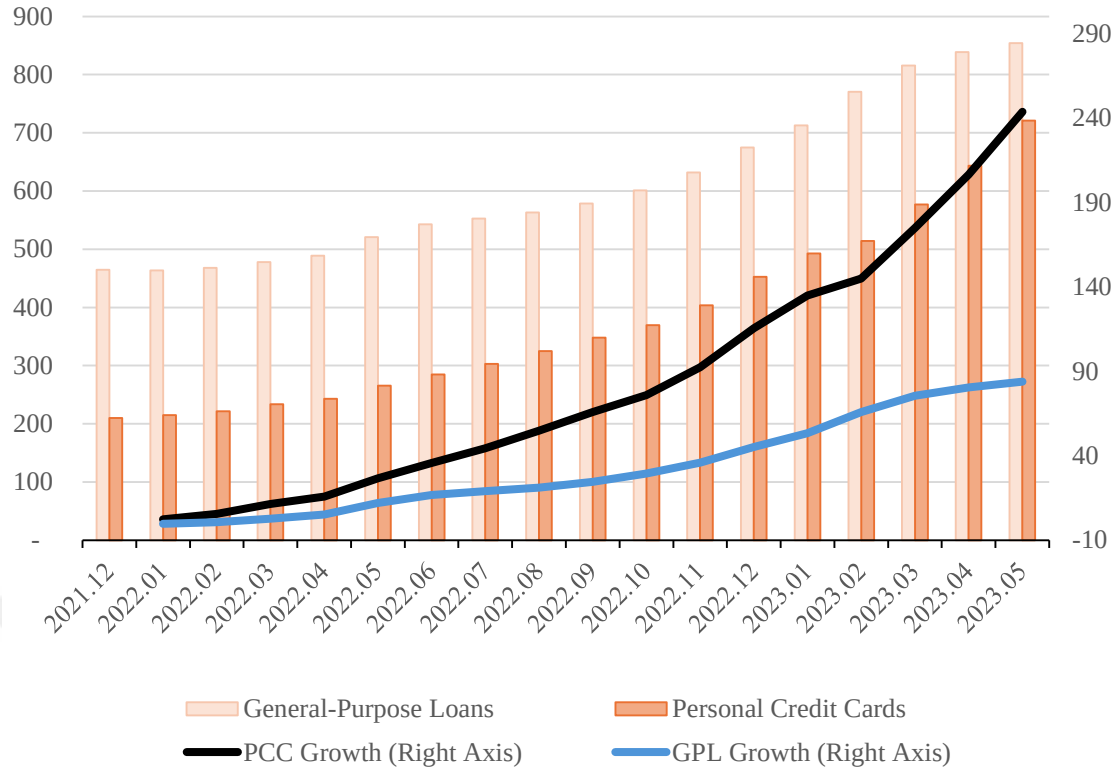

Figure 14. Pre-2023 election period GPLs and PCCs (billion TL, % change compared to December 2021)
Source: (BRSA, n.d.)

5.3 Panel data analysis

In this chapter, I discuss the outcomes of the below fixed-effects estimator:

$$(Erdogan - AKP)_{i,t} = \beta_0 + \beta_1 \Delta PCC_{i,t} + \sum_{k=2}^{n} \beta_k X_{k,i,t} + \mu_i + \gamma_t + \epsilon_{i,t}$$

where;

$$(\text{Erdoğan} - \text{AKP})_{i,t} = (\text{Vote Share of Erdoğan} - \text{Vote Share of AKP})_{i,t} \times 100$$

My dependent variable represents the vote share difference between Erdoğan and the AKP for city i in election t. While $\Delta PCC_{i,t}$ is the main independent variable for city i in election t, $X_{k,i,t}$ refers to control variables included in the analysis. Additionally, city and time fixed effects will be represented by μ_i and γ_t respectively. I use fixed-effects (FE) estimator since my focus in this work is to analyze how does a change in

my independent variable between two elections change the vote difference between Erdoğan and the AKP while lessen the impact of unobserved variables which may have an impact on both the dependent and independent variable. I use the HC2 estimator to calculate robust standard errors in my fixed effects model to address potential heteroskedasticity and enhance the reliability of my estimates, particularly due to the small sample size. The HC2 adjustments contribute to reducing the influence of outlier observations, making my results more robust and less influenced from biases caused by high-leverage points. Since I have two time periods, there is no need to check for autocorrelation.

Regression results are available in Table 3. In order to check robustness, I add control variables one by one in first 5 regressions and add all of them in regression (6). The growth of PCC debt shows statistically significant results in all regressions and is negatively correlated with the Erdoğan-AKP difference, as anticipated. Earthquake, GDP, and population growth are significant control variables affecting the difference between Erdoğan and AKP votes. It is not unexpected that there is a negative correlation between the dependent variable and population growth and GDP, given that an increase in these variables could potentially indicate improved economic circumstances within a city. On the other hand, the only variable that shows a positive correlation is earthquake, indicating its negative impact on AKP's vote share.

I performed six additional fixed-effects regressions to examine the influence of PCC growth on the voting patterns for AKP and Erdoğan individually, as well as for the purpose of performing a robustness check. I anticipate finding a significant correlation with PCC debt growth and the AKP's vote share in comparison to Erdoğan's vote share. The regression findings can be found in Table 4. I performed

three regressions with AKP's vote share as the dependent variable and another three regressions with Erdoğan's vote share as the dependent variable. Upon examining the initial three regressions, PCC debt growth is highly significant and there is a positive correlation between PCC debt growth and the AKP's votes. When examining the regressions with Erdoğan's vote share as the dependent variable, it is evident that PCC debt growth is not significant in all of them. Upon comparing the outcomes of regressions with two distinct dependent variables, it becomes apparent that my independent variable is significantly more effective in explaining AKP's vote share.

Table 3. FE Regression Results (1)

	Erdoğan - AKP Difference					
	(1)	(2)	(3)	(4)	(5)	(6)
PCC Debt Growth	-0.253***	-0.255***	-0.249***	-0.264***	-0.242***	-0.245***
	(0.091)	(0.090)	(0.094)	(0.093)	(0.088)	(0.092)
Earthquake	7.026***	6.875***	6.775***	7.207***	6.654***	5.935**
	(2.559)	(2.590)	(2.626)	(2.583)	(2.488)	(2.732)
Unemployment Benefit App.		0.529				1.057
		(1.093)				(1.589)
Population Growth			-0.577*			-0.737**
			(0.337)			(0.359)
GDP				-0.054*		-0.060*
				(0.031)		(0.035)
GDP Growth					0.072	0.129
					(0.101)	(0.112)
Observations	162	162	162	162	162	162
R^2	0.101	0.103	0.134	0.134	0.114	0.207
F Statistic	4.388** (df = 2; 78)	2.957** (df = 3; 77)	3.986** (df = 3; 77)	3.972** (df = 3; 77)	3.289** (df = 3; 77)	3.219*** (df = 6; 74)

Note: All panel regressions include city and time fixed effects. Robust standard errors that are clustered at the city level are reported in parentheses.
*p<0.1; **p<0.05; ***p<0.01

Table 4. FE Regression Results (2)

	AKP			Erdoğan		
	(1)	(2)	(3)	(4)	(5)	(6)
PCC Debt Growth	0.296***	0.295***	0.287***	0.043	0.040	0.042
	(0.100)	(0.100)	(0.101)	(0.028)	(0.027)	(0.027)
Earthquake	-7.056**	-7.153**	-6.389**	-0.030	-0.278	-0.454
	(2.822)	(2.939)	(3.073)	(0.989)	(0.954)	(0.982)
Unemployment Benefit App.		0.338	-0.087		0.866	0.970
		(1.520)	(1.944)		(0.669)	(0.647)
Population Growth			0.564			-0.173
			(0.466)			(0.135)
GDP			0.056*			-0.004
			(0.029)			(0.009)
GDP Growth			-0.112			0.017
			(0.117)			(0.029)
Observations	162	162	162	162	162	162
R^2	0.117	0.118	0.182	0.056	0.094	0.115
F Statistic	5.183*** (df = 2; 78)	3.436** (df = 3; 77)	2.740** (df = 6; 74)	2.303 (df = 2; 78)	2.670* (df = 3; 77)	1.605 (df = 6; 74)

Note: All panel regressions include city and time fixed effects. Robust standard errors that are clustered at the city level are reported in parentheses.
p<0.1; **p<0.05; ***p<0.01

5.4 Empirical caveats and robustness checks

In this thesis, the primary analytical framework employed is the fixed-effects (FE) model. This methodological choice is driven by the need to control for unobserved heterogeneity and to isolate the impact of personal credit card (PCC) debt growth on the vote difference between Erdoğan and the AKP. However, it is essential to acknowledge and justify this choice in light of the empirical caveats.

The FE model is particularly well-suited for causal analysis in panel data because it effectively controls for time-invariant unobserved heterogeneity. In the context of this research, there are several unobserved factors, particularly political and cultural factors, that could influence voting behavior. By using the FE model, I can control for these unobserved, time-invariant factors, thereby providing a more accurate estimation of the effect of PCC debt growth on the vote difference.

However, one limitation of the FE model is that it does not account for time-invariant factors, which might play a crucial role in the electoral outcomes. Therefore, the primary empirical caveat in this research is the potential omission of time-invariant factors that could influence the dependent variable, the vote difference between Erdoğan and the AKP. While the FE model controls for unobserved heterogeneity, it does not account for any persistent factors that remain constant over time. In this research, such factors could include deeply ingrained political loyalties, regional cultural norms, and historical voting patterns.

Nevertheless, the primary research question in this thesis focuses on understanding the impact of economic variables, specifically PCC debt growth, on voting behavior. This focus aligns with the strengths of the FE model for several reasons. First, the research question aims to isolate the effect of variations in PCC debt growth, on electoral outcomes. The FE model is particularly effective in

controlling for unobserved heterogeneity, ensuring that the estimated effects of PCC debt growth are not confounded by time-invariant factors like long-standing political loyalties or regional cultural norms. Second, the economic variables of interest, such as PCC debt growth, exhibit significant temporal variability. The FE model leverages this variability to provide robust estimates of the causal impact of these economic factors on voting behavior, making it a suitable methodological choice for this research.

To address this empirical caveat and to strengthen the robustness of the findings, I have incorporated several robustness checks using ordinary least squares (OLS) regressions. These robustness checks serve multiple purposes. By using cross-sectional OLS models, I can capture the impact of time-variant factors and provide a comparative analysis to the FE model. Although cross-sectional OLS models are not as robust in causal inference as panel data models, they help in understanding the influence of other variables that may vary over time. Additionally, the pooled OLS approach combines data from multiple time periods, allowing me to assess the overall impact of PCC debt growth across different election cycles. This method helps in verifying whether the observed effects are consistent over time. In summary, these additional analyses allow me to verify the consistency of the results and to ensure that the findings are not driven by the exclusion of important time-invariant factors.

The OLS regression for the 2018 elections analyzes the difference in vote shares between Erdoğan and the AKP, with personal credit card (PCC) debt growth as an independent variable, along with other control variables. The coefficient for PCC debt growth is not statistically significant across most columns. This suggests that for the 2018 data, the relationship between PCC debt growth and the vote

difference between Erdoğan and the AKP is not robustly established. Despite the lack of significance, the negative coefficient (where applicable) still suggests a potential negative relationship. However, given the statistical insignificance, no strong conclusions can be drawn from this model regarding PCC debt growth's impact on the 2018 vote difference.

The OLS regression for the 2023 elections also examines the impact of PCC debt growth on the Erdoğan-AKP vote difference. The coefficient for PCC debt growth is negative and statistically significant at the 0.01 level. This indicates a very strong negative relationship between PCC debt growth and the vote difference between Erdoğan and the AKP. The negative coefficient implies that higher PCC debt growth is associated with a smaller vote difference between Erdoğan and the AKP. This finding reinforces the idea that debt growth played a significant role in influencing voter behavior during the 2023 elections.

The pooled OLS regression combines data from both the 2018 and 2023 elections to assess the overall impact of PCC debt growth on the Erdoğan-AKP vote difference. The pooled results show that the coefficient for PCC debt growth is negative and statistically significant at the 0.01 level. The pooled analysis confirms that higher PCC debt growth consistently leads to a smaller vote difference between Erdoğan and the AKP. This pooled result demonstrates that the observed negative impact of PCC debt growth on the vote difference holds true across different election periods.

Table 5. 2018 Elections OLS Results

	Erdoğan – AKP Difference					
	(1)	(2)	(3)	(4)	(5)	(6)
PCC Debt Growth	-0.220*	-0.212	-0.206	-0.228*	-0.150	-0.156
	(0.132)	(0.130)	(0.131)	(0.131)	(0.143)	(0.150)
Unemployment Benefit App.		0.452				1.325
		(0.913)				(0.942)
Population Growth			-0.909***			-0.856**
			(0.333)			(0.349)
GDP				-0.007		-0.008
				(0.005)		(0.005)
GDP Growth					-0.289	-0.153
					(0.187)	(0.190)
Constant	11.778***	11.040***	12.546***	11.898***	13.936***	11.624***
	(0.727)	(1.733)	(0.736)	(0.750)	(1.780)	(2.304)
Observations	81	81	81	81	81	81
R^2	0.031	0.034	0.114	0.037	0.074	0.146
F Statistic	2.559 (df = 1; 79)	1.376 (df = 2; 78)	5.030*** (df = 2; 78)	1.483 (df = 2; 78)	3.096* (df = 2; 78)	2.562** (df = 5; 75)

*p<0.1; **p<0.05; ***p<0.01

Table 6. 2023 Elections OLS Results

	Erdoğan – AKP Difference					
	(1)	(2)	(3)	(4)	(5)	(6)
PCC Debt Growth	-0.473***	-0.492***	-0.452***	-0.504***	-0.472***	-0.487***
	(0.129)	(0.130)	(0.131)	(0.129)	(0.131)	(0.128)
Earthquake	15.493***	15.939***	15.277***	16.056***	15.517***	15.885***
	(3.273)	(3.357)	(3.285)	(3.242)	(3.319)	(3.290)
Unemployment Benefit App.		-1.034				0.005
		(1.270)				(1.622)
Population Growth			-0.627			-0.415
			(0.847)			(1.048)
GDP				-0.018*		-0.017*
				(0.010)		(0.010)
GDP Growth					-0.063	-0.016
					(0.141)	(0.163)
Constant	38.757***	41.948***	37.926***	40.729***	38.883***	40.084***
	(6.348)	(7.246)	(6.370)	(6.378)	(6.253)	(7.197)
Observations	81	81	81	81	81	81
R^2	0.186	0.192	0.193	0.219	0.188	0.222
F Statistic	8.887*** (df = 2; 78)	6.085*** (df = 3; 77)	6.123*** (df = 3; 77)	7.185*** (df = 3; 77)	5.944*** (df = 3; 77)	3.520*** (df = 6; 74)

*p<0.1; **p<0.05; ***p<0.01

Table 7. 2018 and 2023 Elections Pooled OLS Results

	Erdoğan – AKP Difference					
	(1)	(2)	(3)	(4)	(5)	(6)
PCC Debt Growth	-0.392***	-0.396***	-0.368***	-0.413***	-0.382***	-0.369***
	(0.096)	(0.096)	(0.097)	(0.096)	(0.101)	(0.100)
Earthquake	13.503***	13.601***	13.335***	13.880***	13.350***	13.258***
	(2.963)	(2.975)	(2.973)	(2.933)	(3.070)	(2.956)
Unemployment Benefit App.		-0.228				0.957
		(0.746)				(0.818)
Population Growth			-0.851**			-0.881**
			(0.348)			(0.367)
GDP				-0.014***		-0.014***
				(0.004)		(0.004)
GDP Growth					-0.113	-0.029
					(0.112)	(0.121)
Election Dummy	23.412***	23.744***	21.790***	24.553***	22.445***	21.246***
	(5.019)	(5.093)	(5.046)	(4.987)	(5.450)	(5.406)
Constant	11.401***	11.774***	12.144***	11.645***	12.205***	11.060***
	(0.672)	(1.468)	(0.702)	(0.676)	(1.177)	(1.894)
Observations	162	162	162	162	162	162
R^2	0.192	0.193	0.223	0.211	0.199	0.242
F Statistic	12.540*** (df = 3; 158)	9.369*** (df = 4; 157)	11.250*** (df = 4; 157)	10.469*** (df = 4; 157)	9.766*** (df = 4; 157)	7.039*** (df = 7; 154)

*p<0.1; **p<0.05; ***p<0.01

CHAPTER 6

DISCUSSION AND CONCLUSION

A growing body of research has emphasized the evolution of political identity towards a more socially-oriented construct, resulting in the formation of in-group and out-group dynamics similar to those observed in contexts of racial identity (Iyengar & Westwood, 2014). The dominance of partisan affiliations as a prevalent social identity marks a significant change in the Turkish political landscape recently.

It is necessary to stress that the possibility of President Erdoğan's defeat in the previous election was solely due to Turkey's recent economic issues such as currency depreciation and high inflation. The 2023 Turkish elections presented a puzzling contradiction for scholars, as there seemed to be no impact of the worsening economic climate on the votes received by Erdoğan. This phenomenon invites various possible explanations. In Turkey, voter behavior is heavily influenced by factors such as ethnic identity, religious affiliation, partisan loyalty, and the appeal of charismatic leadership.

The ability to manage economic crises is crucial for the incumbent's political survival. Strategically designing policy formulation and instrument selection is crucial for satisfying the preferences of both consumers and businesses. The Turkish government's decision to lower interest rates in 2021 resulted in a significant currency crisis, elevated inflation rates, and an overall increase in the cost of living. On the one hand, people in the low- and middle-income brackets have experienced a decrease in their real wages. On the other hand, the measures taken by the government in response to a potential economic slowdown included the implementation of stricter capital controls, low-interest rate policy and the aggressive

promotion of credit expansion through public banks. The focus on debt and consumption as drivers of growth, combined with inflationary expectations, resulted in higher levels of consumer spending and economic growth but also contributed to financial instability. In a way, credit markets functioned similarly to social safety nets, providing support to people in mitigating income losses and sustaining consumption levels (Wiedemann, 2021). Given the incumbent's constrained fiscal capacity, facilitation of accessible borrowing helped low- and middle-income households maintain their standard of living despite increasing income inequality.

Turkey has seen a surge in the popularity of credit cards and consumer loans among people from various income groups in the last two decades. In the context of Turkey's frequent encounters with mid to high level inflation, the utilization of credit cards and loans functions as a strategic tool for individuals to proactively amplify their demand for goods, particularly in consideration of the advantageous interest rate environment. The period of negative interest rates leading up to 2023 elections has heavily prompted individuals to involve themselves in credit products, as it provides the chance to pay a lower amount for goods compared to future price, as is expected to increase in the near future. The CBTR's negative interest rate and permissive credit regime allowed them to maintain their consumer spending. Despite this macroeconomic conjuncture led individuals to buy more goods by using credit products, it also gave a chance to repay them, which might give a feeling of false prosperity. While there may be a small rise in the total amount of non-performing credit card debts prior to the 2023 elections, the NPL ratio for credit cards is significantly declining (see Figure 15). This decline serves as an indication of an improved ability to repay debts. The declining pattern is also evident when examining the NPL ratio of consumer loans prior to the 2018 elections. The decrease

in this ratio from 4.3% at the end of 2016 to 3.2% immediately prior to the election signifies an enhancement in the people's ability to meet their debt commitments.

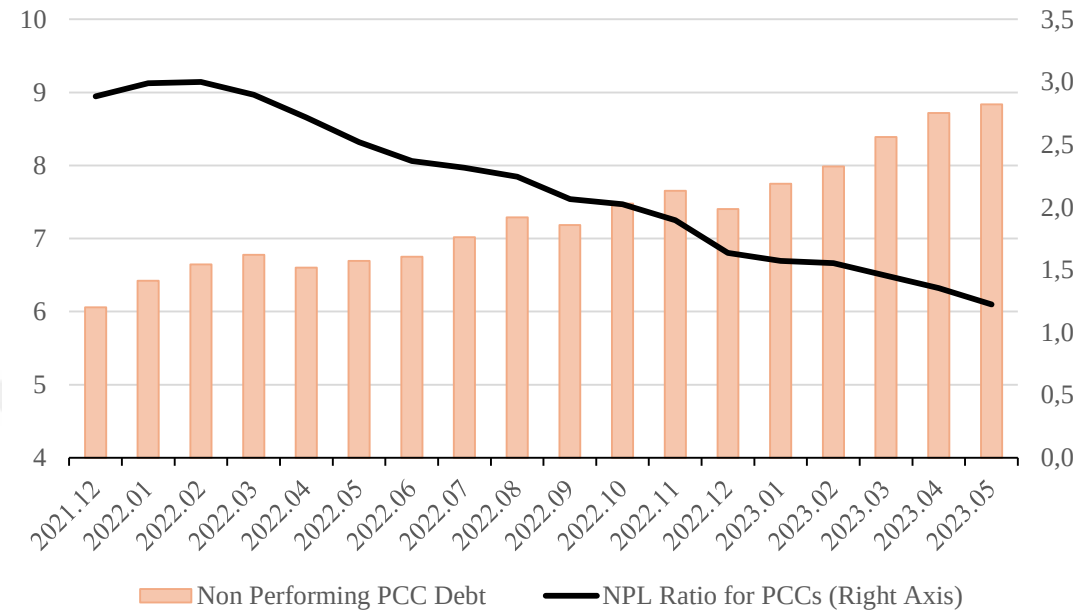

Figure 15. Non-Performing PCC debt 2021–2023 (billion TL, %)
Source: (BRSA, n.d.)

Affective polarization, a concept that has become increasingly significant in political science literature, refers to the intense and growing divide in emotional responses—like and dislike—between partisans of different political groups. This phenomenon goes beyond mere policy disagreements to encompass deeper emotional and social divisions. This polarization leads to strong positive feelings towards one's own party and negative feelings towards opposing parties, often influencing voter behavior beyond rational economic considerations (Iyengar et al., 2012).

The rise of affective polarization can be attributed to media fragmentation and the echo chamber effect, where individuals are primarily exposed to information that reinforces their existing beliefs (Stroud, 2010). This environment fosters a perception of politics as a zero-sum game, intensifying in-group favoritism and out-group

hostility. In Turkey, this has been exacerbated by the government's control over media narratives, which further entrenches partisan divides (Iyengar et al., 2012).

Studies have shown that affective polarization can significantly distort economic voting. Voters in highly polarized environments, like Turkey, may prioritize their partisan identities over objective economic evaluations (Lelkes, 2016). Affective polarization also leads to heightened political animosity and reduced trust in opposing parties, making it difficult for voters to switch allegiances based on economic performance alone (Iyengar et al., 2012).

In the context of Turkish politics, affective polarization has profound implications for voting behavior and political accountability. This polarization is fueled by ideological, religious, and ethnic cleavages that have been exacerbated over time. In Turkey, this dynamic reveals itself as selective accountability, where voters hold the AKP accountable for economic issues while maintaining their support for Erdoğan, who they see as embodying their ideological and identity-based values. This phenomenon can explain why, despite significant economic challenges such as high inflation and unemployment, a substantial portion of the electorate continues to support President Erdoğan. This dynamic helps explain why, despite economic dissatisfaction, many voters continue to support Erdoğan, viewing him as a defender of their ideological values (Svolik, 2019). His ability to frame political discourse around ideological and identity-based issues allows him to maintain a strong personal following, even when economic indicators might suggest a different electoral outcome.

This thesis has delved into the dynamics of economic voting in Turkey, offering critical insights into how personal economic conditions, media influence, and macroeconomic policies intertwine to shape voter behavior. Through a detailed

empirical analysis of the 2018 and 2023 elections, the findings reveal significant patterns that enhance our understanding of the political credit cycle and economic vote within a highly polarized context.

In my study, employing a panel regression with city fixed-effects, I observed that cities that maintained or improved their level of access to personal credit during political credit cycles, where the incumbent government opts for lower interest rate policy and credit expansion, experienced a smaller decrease in AKP votes. Conversely, in cities where access to personal credit remained limited, there was a more substantial decrease in support for the AKP. This pattern suggests that the level of personal credit access, as an indicator of individuals' immediate financial condition, had a significant impact on voting patterns in the recent elections.

Hence, despite ideological identification has been crucial in maintaining the Erdoğan's electoral support, the AKP's resilience considerably relies on leveraging voters' economic interests. Studies shows that while individuals' political preferences are indeed influenced by economic shocks, the direction and magnitude of these changes are often contingent upon their pre-existing political orientations. Autor et al. (2016) provide a pertinent example, finding that an economic disturbance precipitated by trade dynamics led to a polarization of political stances, with left-leaning voters gravitating further to the left and right-leaning individuals inclining more towards the right.

Earlier studies on identity and partisanship have consistently portrayed these components as being relatively firm and unvarying over time. However, my findings indicate that individuals do adjust their party preferences over time, including in response to external shocks such as high inflation and increased living costs, though their core ideological identifications remain unchanged. It is not commonplace for

people to change ideological identifications to consistently adapt in response to fluctuating economic conditions. The findings suggest that while economic shocks may not fundamentally shift the allegiances of Erdoğan's supporters, they do affect the party preferences of a small yet influential subset of AKP supporters, pushing them towards a more right-leaning parties. My findings demonstrate that implementing measures such as low interest rates and credit expansion can decrease the likelihood of defecting from the AKP in response to economic challenges. This result corroborates existing research indicating that the attitudinal effects of economic disturbances are profoundly affected by the pre-existing depth and orientation of ideological dispositions held by individuals before encountering it (Autor et al., 2016; Brunner et al., 2011).

The findings from the research by Yağcı and Oyvat (2020) on partisanship, media, and the economy in Turkey substantiate the core hypothesis advanced in this thesis. The research underscores the critical role of personal economic experiences, particularly income growth, in informing pocketbook assessments. This supports my thesis's hypothesis that pre-election credit expansions and reduced interest rates, which provide immediate financial relief, substantially influence voting behavior. The empirical analysis within this thesis, which examines the relationship between personal credit card debt and voting behavior, is supported by the research's conclusion that individual economic conditions can predict economic assessments. I found that voters in regions with higher levels of personal credit card debt are more likely to support the AKP, suggesting that financial relief through credit policies mitigates the adverse effects of economic dissatisfaction.

The influence of media, particularly pro-government media, in shaping economic assessments emerges as another critical finding from Yağcı and Oyvat

(2020) that corroborates this thesis. Pro-government media fosters an overestimation of the national economy's performance, a phenomenon consistent with the discussions on ideological polarization and media influence presented in this thesis. The role of media in reinforcing positive perceptions of the economy, despite individual economic challenges, supports the argument that ideological polarization and media bias can insulate Erdoğan from economic blame. This is especially pertinent in highly polarized political environments where media significantly shapes voter perceptions and behavior.

The findings of this thesis have significant policy implications. They suggest that economic policies aimed at interest rates and credit availability could have substantial political benefits for incumbent parties. Policymakers should consider the political ramifications of credit expansions and debt relief measures, particularly in the lead-up to elections. Future research could build on these findings by exploring the impact of other economic variables, such as wealth and income inequality, on voting behavior. Additionally, comparative studies across different political contexts could provide further insights into the generalizability of the observed relationships.

APPENDIX

ORIGINAL TEXTS OF ERDOĞAN'S SPEECHES (IN TURKISH)

1. Hatırlarsanız 2019 yılına başladığımızda, birileri yine milletimizin umudunu kırmak için kendilerine biçilmiş rollerini oynuyorlardı. Onların senaryosuna göre, 2018'deki kur-faiz-enflasyon darbe girişiminin ardından Türkiye 2019'da tümüyle batacak, bitecek, yerle yeksan olacaktı. Bunlara göre dolar 10 lira olacak, enflasyon yüzde 30'u aşacak, bankalarımız tökezleyecek, hazinemiz iflas edecekti. Bunların hiçbiri oldu mu? Aldığımız kararlar, uygulamaya koyduğumuz tedbirler, iş dünyamızın dirayetli duruşu ve en önemlisi milletimizin desteğiyle, hamdolsun bir kez daha bu felaket senaryolarını yırtıp attık . . . Faizler indi, ne kur patladı ne piyasalar karıştı.

2. 24'ünde siz bu kardeşinize yetkiyi verin, ondan sonra bu faizle, şunla bunla nasıl uğraşılır göreceksiniz. Bu toplantıda açıkça söylüyorum, yüksek faizle biz ülkemizi ayağa kaldıramayız. Biz eğer yatırımcıyı güçlü kılacaksak burada düşük faizle bu adımı atmak zorundayız . . . Japonya eksi faizle çalışıyor. Amerika'ya geliyorsun ikilerde, bilemedin üçte… Onların bankaları böyle çalışıyor da bize ne oluyor? Şu anda 20'lerde, 25'lere kadar çıkıyor. Faizin böyle olduğu bir ülkede siz yatırım yapabilir misiniz? Arkadaşlar bunu değiştireceğiz, bu işin lamı cimi yok.

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