

THE IMPACT OF KNOWLEDGE ON ECONOMIC GROWTH IN AN UNSTABLE ECONOMY: THE TURKISH EXPERIENCE (1960-2019)

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Abstract:

The mid-20th century has marked the era of Information Age where we have experienced a rapid epochal shift from traditional production methods to information technology based production methods. With this new era the importance of building a strong knowledge-based economy for sustainable long-run economic growth performance has become a priority for countries. Unfortunately, this is not an easy target especially for countries such as Turkey where endemic instability, recurrent crises and associated low and volatile productivity and growth rates have been the dominant macroeconomic themes in its economy for more than half a century. This paper, inspired by the Turkish experience, investigates the role of macroeconomic instability and knowledge on total factor productivity over the 1960-2019 period, by using a production function approach. We also construct a knowledge index, composed of various dimensions of knowledge, to see the impact of knowledge with a single and comprehensive measure that provides us information about the “level” of knowledge in the economy. Within our simple framework of total factor productivity we link short-run policy outcomes to long-run productivity measures by considering a number of political economy factors. This framework helps to explain the substantial volatility in productivity and output trend in Turkey during this period. The empirical results of our time series analysis confirms that the impact of knowledge accumulation in Turkey has been affected by the endemic instability, populist cycles, and resultant crises which has in turn resulted in a substantial volatility of productivity trend in Turkey.

Keywords: Knowledge, Total factor Productivity, Instability, Economic growth, Political economy.

JEL Codes: E60, O40, O47, O50