THE CONTEMPORARY TURKISH ECONOMY

Z.Y. HERSHLAG

Turkey, a strategically important country, a member of NATO, and currently an applicant to join the EEC, has an interesting economy which provides a good example of a developing country struggling to improve its economic performance by means of Five Year Plans, export growth strategies, anti-inflation policies and monetary and fiscal policies, with modest success. This book presents a detailed analysis of the Turkish economy and its current difficulties and argues that Turkey is in fact a country with considerable economic potential which is at present much underutilised. By analysing the problems and by assessing recent policies designed to cope with them the author suggests how economic strategies and thereby economic performance might be improved.

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ROUTLEDGE
London and New York

First published in 1988 by
Routledge
a division of Routledge, Chapman and Hall
11 New Fetter Lane, London EC4P 4EE

Published in the USA by
Routledge
a division of Routledge, Chapman and Hall, Inc.
29 West 35th Street, New York NY 10001

Printed and bound in Great Britain by Mackays of Chatham Ltd, Kent

British Library Cataloguing in Publication Data
ISBN 0–415–00388–1

Library of Congress Cataloging in Publication Data
ISBN 0–415–00388–1

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Preface

The simplest excuse an author may give for re-examining a subject he himself already researched in the past is that his earlier publications are out of print and/or that with the passage of time data, analysis and lessons have become outdated in the face of new scenarios and new concepts. This undoubtedly holds true for the present author. This is not, however, the whole truth. The last few decades have witnessed a revolutionary change in the international political set-up, with tens of new independent polities, growing international, social and economic disparities, and domestic inequalities — all giving rise to diversified, sometimes conflicting development theories and strategies, drawing on such concepts as the theory of stages, *dependencia*, centre and periphery, 'trickling down' theory, satisfaction of basic needs, countervailing power, new international economic order (NIEO), environmentalism versus nuclear power, and modernism versus fundamentalism. The list is endless.

Meanwhile, the stigma of grinding poverty in the midst of plenty still remains on both the international and national levels. The market mechanism has failed to wipe out this infamy, as well as others such as massive unemployment and inflationary distortions. Industrial, energy and financial oligopolies, furthermore, continue to guard vested interests.

'Averages' of GNP *per capita*, the still-reigning criterion of economic and social welfare, have increased substantially, though unevenly, almost everywhere, but the 'averages' do little to reflect the realities. National and sectoral pockets of destitution have remained widespread, and new 'social diseases' have been added to the list of the traditional ones. Certain undeniable achievements notwithstanding, even the most sophisticated planning methods and models have been unable to meet all these challenges, and to catch up with the pressing needs of society and its development requirements and targets.

While our choice of Turkey as a representative case study of a developing country may appear somewhat arbitrary — and certain other economies could just as well have been selected — the social and economic history and present status of Turkey clearly reflect typically the case of a less developed country (LDC) which has attempted to overcome its inherited and acquired backwardness and the obstacles to development. Encouragement of free enterprise, ideology and techniques of etatism and planning, self-sufficiency (import substitution) and outward orientation, total outlay and radical restraints have all served as instruments of change and the striving towards economic independence at a high-level equilibrium.

It is not at all clear that goals have been achieved or that the most successful method or strategy of development has been employed, but the Turkish case undoubtedly reflects most of the issues, bottlenecks, political, social and economic impediments to growth, and the successes and failures of LDCs struggling for better opportunities and a greater share in international welfare. It raises time and again the issue of the very meaning of development as distinct from, though not contradicting, the notion of material growth. In this striving for development as representing the goal of decent human life and dignity lies the justification for our modest attempt to reconstruct the recent economic scenario as a link in the secular chain of change.

In my two earlier books on the subject, namely *Turkey, an economy in transition* (1958), and *Turkey, the challenge of growth* (1968), I dealt extensively with the development of the Turkish economy since the emergence of the Republic until the end of the 1960s. In the present volume, the whole period up to the late 1970s is telescoped into one major chapter, while the bulk of the work concentrates on the focal contemporary issues of the 1980s. During the critical years 1979 and 1980 the Turkish society was confronted with a host of complex transitory as well as long-term issues. Some of them can be understood and analysed only against the peculiar Turkish political and economic background, while others, such as inflation and disinflation, must be related to a wider conceptual theoretical and empirical framework, without forgetting, of course, the indigenous forces pertaining to the Turkish case. A follow-up of events and concepts in Turkey and their interactions with the international community renders possible an extrapolation of trends and the perception of desirable, planned and feasible future development.

Acknowledgements

This book, in common with my previous ones on the subject, may be considered an outcome of collective and cumulative thinking, discussions, agreements and disagreements, and continuous exchange of ideas with many friends and students, at conferences and seminars, and in private encounters. All of them have some share in the elaboration of concepts, issues and analysis, and their help is highly appreciated.

Particular thanks are due to my friend and colleague Professor Osman Okyar, who read the initial manuscript and offered extremely helpful comments, advice and ideas. He should be credited with many constructive revisions in the final version and, at the same time, exculpated from any sins committed by the author.

Further warm thanks go to my other friends and colleagues, Professor Mükerrem Hiç and Dr Cihat Iren for their admirable intellectual and professional assistance and inspiration.

I am deeply grateful to Gerda Kessler for her thorough English copy-editing and assistance in the preparation of the index, and to Pamela Yacobi and Sylvia Weinberg for their excellent typing. The Faculty of Social Sciences at Tel-Aviv University was helpful in the final stages of my work.

My greatest debt I owe as always to my wife.

Z.Y.H.

Introduction

Although Turkey's economic policies have varied over the more than 60 years of the Republic and even strategies have undergone transformation, the country has retained a number of basic conceptual patterns. The misfortunes of the past, caused by domestic autocracy combined with corruption and inefficiency, and by growing foreign interference and dependency, were behind Atatürk's determination to draw a definite line between the imperial past and a modern, republican, independent future. At the same time, however, all transformations of the Kemalist concept have remained faithful to the centrist notion of an indivisible entity, polity, and territory; they have been strongly nationalistic and, for the most part, authoritarian. In fact, decrees and laws, and even democratically phrased constitutions, have proved ineffective in eradicating the tradition of deeply rooted etatism, plausibly re-defined as a major indispensible tool of rapid development and progress, under the name of *devletçilik*. This basic notion has survived many political and economic upheavals, despite intermittent denials by politicians, economists and academics.

Other prevailing components of the evolving economic philosophy have been self-reliance, bordering upon autarky, rapid industrialisation, and the notion that has until recently pervaded economic policies of import substitution as a development strategy. In adopting these strategies, Turkey set a precedent for the new international economic order (NIEO) and most of the less developed countries (LDCs), though not the newly industrialising countries (NICs).

Geopolitical importance has always been a mixed blessing. In Turkey, too, the pros and cons of her geographical position have been unbalancing each other intermittently. An important element of this mixed blessing is the security aspect, which is part and parcel of every polity, but assumes particular dimensions in certain geopolitical conditions, such as those of Turkey. Although the military burden of the Turkish economy, which is officially estimated at about 5 per cent of the gross national product (GNP), apart from the direct NATO outlays, does not exceed significantly that of most developing countries and even lags behind some of them, as in other LDCs it combines with other factors to throw the resources equation out of balance and place an undue strain on the meagre domestic funds and foreign exchange. In view of her internal, regional and global considerations, Turkey's half-heartedness in her attitude to NATO and the European Economic Community (EEC), raises intermittently the issue of Western responsiveness to her financial needs. Hence the frequent questioning of reliability of both sides. Of course, in this context the Turkish–Greek animosity and the appended Cyprus issue play a major role.

Certain aspects of the geographical position are more auspicious. In the strictly economic sense, with regard to such ingredients as tourism, trade, transportation and communications, bridges between the East and the West, the weight of the pros is undoubtedly overwhelming. But forceful economic and social cohesion, imagination and leadership are required fully to utilise the potential and, at the same time, to withstand external pressures, and to cope with other exogenous factors and internal complications. Here lie the test and criteria of development philosophy and strategy. Only a society that is aware of and *participates* in real economic and social progress can take advantage of its capacities.

Republican Turkey is still experiencing a crisis of identity, spurred by internal, centrifugal, ideological, sectorial, nationalist and religious forces, as well as by external political, economic and cultural challenges. Between a communist neighbour and domestic communist sympathisers, a revivalist Islamic ideology, fed by Iranian fundamentalism and constituting fertile ground for the traditional hinterland, on the one hand, and the economically, culturally, technologically and strategically advanced Western partner, to whose political, social and economic ideals Kemalism is strongly committed, on the other hand, Turkey's choices are not easy.

Kemalism has been an ideology largely imposed by the elite and hardly understood or shared by the rural and even urban masses, despite many efforts at indoctrination.[1] In this respect, however, Turkey is no different from many developing countries, where ideology is chiefly propagated by various 'elites', often with little relevance for the majority of the people. Even in Soviet Russia it took a long time to impart the ideology of the leadership to the masses, and then with limited success.

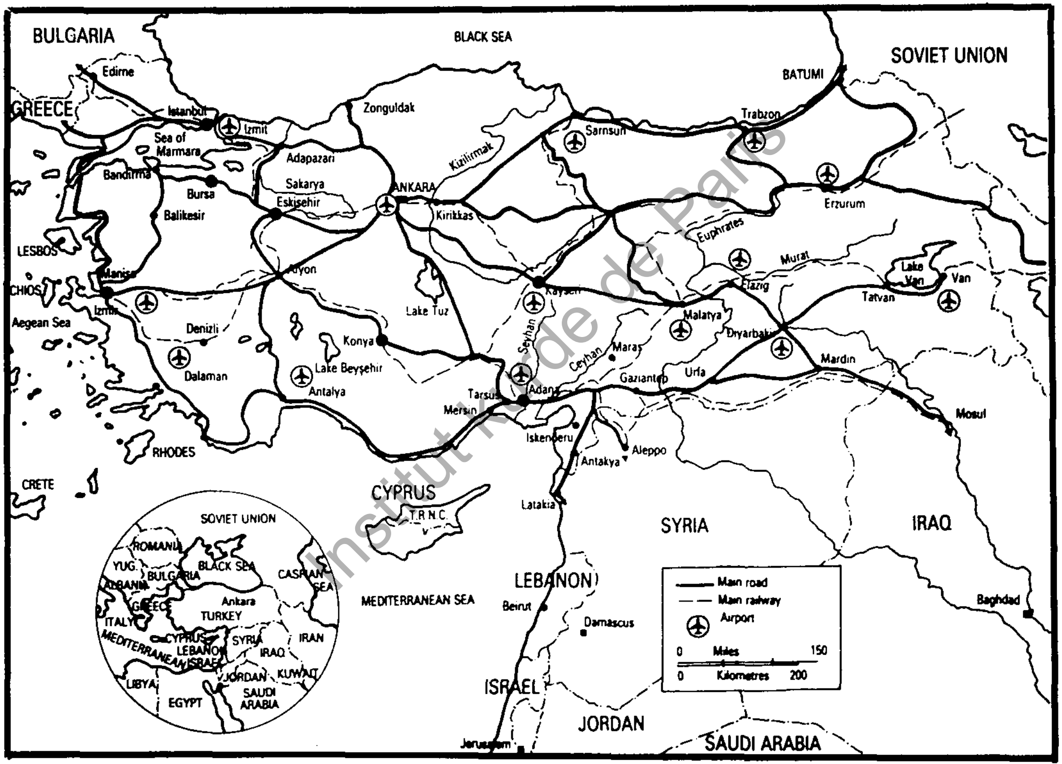
Although in Turkey, perhaps more than elsewhere, the authoritarian and centrist-oriented Kemalism has deeper roots in the Ottoman past, the essence of the Kemalist reforms and concepts reflects a desire for a dramatic departure from the traditional heritage. Inevitably, attempts at social, cultural and economic modernisation have frequently clashed with conservative forces and attitudes, with vested interests of landlords and clergy, officially denied their former status, and with the rigid bureaucracy. With the death of the charismatic Kemal Atatürk towards the end of 1938, the post-war challenges of a rapidly changing scenario were taken up by new social and political forces.

Orthodox Kemalism went on the defensive. The monolithic political-economic concepts of a one-party system gave way to a pluralistic philosophy, though it still formally adhered to Atatürk's reformism. The ongoing structural transformation of manpower and production brought into being new issues and conflicts, fed by the largely centrifugal forces of entrepreneurs, trade unions, technocrats and bureaucrats, as well as the political, religious and military establishment. To a certain extent, somewhat paradoxically, Turkey has come full circle, with the 1980s facing a clash between old and new, tradition and change, reaction and progress, resembling, *mutatis mutandis*, that of the early days of the Republic.

NOTES

1. See U. Steinbach, *Das Politische System der Türkei in der Bewährungsprobe*, offprint, Köln, 1979.

Map of Turkey



1

Sixty Years of the Republic

THE FREE ENTERPRISE EXPERIMENT OF THE 1920s

The basic idea of Atatürk upon the emergence of the Republic was disengagement from the fetters of the Ottoman Empire and the creation of a new political, social and economic entity.[1] However, social and economic transformation does not hinge on decision-making alone. It is an historical process, in which continuity and change, heritage and innovation alternate in gaining the upper hand or retreating. The final result is an amalgamation, rather than a synthesis, of sometimes contradicting and sometimes mutually supporting forces.

The development drive in republican Turkey emerged immediately upon the heels of the Turkish–Greek war and the proclamation of the Republic. The Izmir Congress in 1923 (from 17 February until 4 March), at which most of Turkey's capital, labour, urban and rural strata were represented, though on a selective and not truly democratic basis,[2] and the policies that followed, did not stop at the reconstruction target but looked ahead to more ambitious programmes in the economic area. Through industrial and rural legislation and active direct entrepreneurship, the state also attempted to initiate new development patterns. Government investment activities were to be reinforced mainly by three banks — the İş Bank, the Industrial and Mining Bank, and the Agricultural Bank (reorganised under the Republic).

Although the main Kemalist reforms were launched as early as the 1920s, and Atatürk's famous speech of 1927[3] drew on Gökalp's views, which accorded the society-nation-state supremacy over the individual and imposed upon it responsibility for the economic life of the nation,[4] economic policies continued to abide by the free-entrepreneurship spirit of the Izmir Economic Congress of 1923. The main economic role was granted to private enterprise, in line with the *quasi*-Western liberalism according to which 'the task of the state begins where the activity of private enterprise ends'. The Organic Statute of 1924 defined private property and free enterprise as basic principles of the state. Then, too, however, the economic duties and character of the state were emphasised, as demonstrated in a January 1923 government statement: 'The new Turkish state will not be a state of conquerors, but an economic state.'[5] In this spirit, a Superior Economic Council was set up in 1927, with the participation of diverse economic sectors, to advise the government with regard to economic legislation, the initiation of the industrialisation drive and export potentials.

In the 1920s, a variety of measures were announced with the aim of protecting domestic producers and workers, basing industry on domestic raw materials and boosting rural production and living standards; certain reforms were intended to balance public budgets and oppose any foreign assistance which might jeopardise Turkey's independence. More aggressive, etatist strategies did not emerge, however, until the experience of the 1920s and the Great Depression had dispelled many delusions and until the last vestiges of the Ottoman Empire could be successively eliminated — through the Lausanne Conference, the Izmir Congress, and a variety of economic, industrial, financial and banking laws, as well as changes in customs policies.

The period of the 1920s in Turkey is not sufficiently long for it to serve as a paradigm of an attempted market-economy strategy from which conclusions may be drawn concerning the degree of its success. Then there is the usual feature of every Rostovian 'stage of growth', which conceals two components, the legacy of the past and the seeds of the future, over and above its own innovative character. These components in the Turkish case were: the strong impact of the preceding stage of the Ottoman, imperial, autocratic and bureaucratic past on the one hand; and the seeds of the forthcoming stage of etatist, planned, and industry- and import-substitution-oriented strategy on the other. It may even be absurd to consider a six- or seven-year period, from the proclamation of the Republic in 1923 until the rise of etatism in 1930/31, a stage in the Rostovian sense. It should perhaps be seen rather as a transitional period of trial and error, of post-war reconstruction and laying the foundations of gradually evolving new targets, instruments and strategies. Similarly, attempts to force the period into the straitjacket of a self-contained historical model, such as the centre–periphery concept, resulting from 'the reign of merchant capital',[6] are neither convincing nor sustainable, on either theoretical or empirical grounds.

On the one hand, what dictated the economic strategies and policies of the 1920s were external limitations imposed on the Turkish economy by the inherited imperial commitments of the latter part of the nineteenth century, and the terms of the Lausanne Treaty of 1923, with regard to the Ottoman debt, capitulations, and customs tariffs in particular, as well as the implications of the Greek–Turkish population transfer. On the other hand, there was the weight carried by internal factors such as the damage of the First World War, the need to reconstruct infrastructure and the productive industrial and agricultural sectors and, finally, the shortage of investment capital, both foreign and domestic. The problem of dealing with all these issues was further compounded by an international economy undermined by the outcomes of the First World War and characterised by fluctuating cycles, with ups and downs culminating in the Great Depression at the end of the 1920s.

It should be considered a significant achievement in that trial-and-error period of liberal policies mixed with government reconstruction efforts that towards the end of the 1920s Turkey was able to meet and streamline her previous commitments, to avoid serious new indebtedness and attain a recovery of the economy at least to the pre-war levels. The beginnings of modern industry, along with real growth in traditional manufacturing, accompanied by certain, albeit insufficient, economic and social reforms in agriculture, in the public budget and taxation methods of this period, held the promise of more rapid growth and greater economic independence in the future.[7] Then came the 1930s, when the international upheavals and the domestic responses and attitudes to them radically changed the economic scenario.

The actual policies of the 1920s and their results proceeded from the Organic Statute of 1924, which declared private property and free enterprise as the basic principles of the state and laid down the major targets of government policies:

protection of the producer, of national industry and workers, and of foreign trade; utilisation of domestic raw materials for industrial development; improvement of transportation; raising rural standards; balancing the budget; and avoiding foreign aid on enslaving terms.[8]

Gradually the government reduced budget deficits and even registered a small surplus in 1928/9, thanks to controlled expenditure and improvements in tax collection, and only in the black depression year of 1929/30 did the deficit increase again.[9] Foreign trade deficits, too, were kept at a reasonable, more or less steady level, balanced by a certain, though only moderate, influx of foreign capital on acceptable terms.

Though the deficient statistics for that period hamper any reliable estimating of real growth, indirect evidence shows a permanent improvement from 1923, and the better data available from 1927 confirm this trend, showing a *per capita* real growth of 2–3 per cent between 1927 and 1929.[10]

THE CONCEPTUAL AND EMPIRICAL ASPECTS OF ETATISM AND PLANNING

The history of etatism in Turkey and the analysis of its essence reveal the complex endogenous and exogenous forces and factors underlying the emergence of the concept. Such factors were, *inter alia*, the inadequacy of private entrepreneurship, the world depression and the crisis of the capitalist system, the impact of the Soviet five-year plans, as well as certain theoretical-ideological concepts favouring public entrepreneurship and nationalist strategies.[11] In the course of time etatism did become an ideological principle, although in the Turkish context it may be considered unique on two accounts: first, it had no pretensions to be a universal ideology (such as socialism, communism or fascism), and was confined to Turkey's particular circumstances and goals; secondly, it was integrated into a more comprehensive system as the economic constituent of the six-point (called intermittently six pillars or arrows) programme of the ruling Republican Party (in 1931) and the constitution (in 1937).[12]

It may be said that prior to the institutionalisation of etatism and its integration into the constitution as one of the six pillars of the new republican state — along with republicanism, nationalism, populism, secularism and evolutionism[13] — the concept was a matter of expediency rather than principle. It also left the door open to private enterprise, being designed primarily to step in when and where private enterprise proved unable to cope with the predicaments of Turkey's economy. Even as late as 1935, Atatürk defined etatism as 'a system peculiar to Turkey which has evolved from the principle of the private activity of the individual, but places on the state the responsibility for the national economy, with consideration of the needs of a great nation and a large economy, and of many other things that have not been done so far'. He also added that, since things have to be done quickly, it must be 'a system different from liberalism'.[14] By the mid-1930s etatism had become more militant, and some leaders even went so far as to call it 'a matter of life and death for our generation'.[15] Consequently, etatism became evident not only in fiscal, financial and monetary matters, but also in banking activities, infrastructure, mining, industry and, of course, military production.

Later inquiries into and studies of etatism tended to view it as a pragmatic ('trial-and-error') concept, as the most effective way to rapid economic development, rather than a clear-cut economic ideology and philosophy.[16] This assessment also follows from recent reappraisals of the 1923 Izmir Economic Congress and of Atatürk's fundamental views that private enterprise should be the chief factor in economic development. While sources from that period[17] do justify this evaluation with regard to the initial formative stage of etatism, the traditional bureaucratic structure and the autocratic tradition, combined with the endogenous and exogenous factors mentioned above, certainly had their share in the gradual, though quite rapid spread of a more radical and doctrinal etatist concept. Even if one agrees with the definition of etatism as no more than a 'method' different from other methods (such as the earlier strategies of the 1920s, or those adopted in the 1950s), a rigorous examination of its ample and comprehensive measures shows a dialectical process of turning this very quantity into a qualitatively and conceptually different and new basic approach. The evaluation of etatism and central planning in the 1930s as purely pragmatic can hardly be reconciled, therefore, with the more comprehensive evidence. It can be quite easily proved, from contemporary sources of the relevant period, that the pre-

Second World War concept derived, in addition to a number of external and internal factors, from basic, though only gradually shaped, conceptual premises of Atatürk and Inönü and their disciples regarding the road to the rapid transformation of the Turkish economy and society. It is also interesting to note that what Atatürk had in mind was the *comprehensive* concept of development (H.W. Singer's definition of 'growth plus change'),[18] while in fact, the etatist planning principle adopted the easier, more limited concept of quantitative growth.

Even though politically etatism and planning have regained their position as guiding principles of national economic policies, on the heels of the 'liberal' decade of the 1950s, the planning strategies of the 1960s and 1970s were largely the pragmatic result of the impact of modern econometric models, of growing urban pressure, and of the need to integrate Turkey in the world economy and the European Community (though in this regard the policies alternated according to the different approaches of the Republican and Democratic parties in power). Political forces have undoubtedly played a decisive role in shaping the economic philosophy and policy of republican Turkey. In this regard, the 1930s reflected the one-party (Republican) Kemalist rule, while the philosophies and strategies of the post-Second World War period fluctuated with the changes of political forces in power.

Historical analysis of stages of growth in various developed societies shows a general trend of ascendance, industrial dynamics and maturity, though differently termed and characterised by various schools, such as the German, Marxian, Rostovian and others. In most of them there is a 'leading sector', with backward, forward and lateral linkages. In recent decades, the idea of normative planning models has taken roots, as a device to accelerate and streamline the process, on the basis of the focal leading sectors.[19] The controversy on the subject relates not only to definitions, terminology and content (economic, political and ideological), but also, perhaps in particular, to the validity of the concept as a *normative* one and its applicability to newly developing countries, where tradition and heritage confront modern environments, technology and international economic, social and political forces.

Turkey was, apart from Soviet Russia, the first country which adopted and implemented the concept of mandatory central planning, with the focus, as in Russia, on industrialisation.

Today, the planning period of the 1930s is being largely obscured and references to the first, second and later development plans start with the early 1960s. None the less, the very concept of planning, including input–output elements, and the practical foundations of industrialisation took root in the 1930s.[20]

The modern concept of central planning was institutionalised and formalised primarily with the setting up of the State Planning Organisation (SPO) in 1960,[21] designed to prepare and implement the plans under the guidance, at the ministerial level, of the High Planning Council, which was in charge of strategies and policies. It was, however, the 1930s etatism, its initial five-year plans, the industrial focus, and the creation of the State Economic Enterprises (SEEs) and state or other banks (particularly Sümer and Eti)[22] which set the stage for future concepts and ventures. Perhaps even to its detriment, it can be said, that the shadow this initial period cast on later developments has seriously undermined the freedom of action and feasibility of change, regarding, for instance, the efficiency of the SEEs, relations with foreign entrepreneurs and the neglect of agriculture.[23] This assessment, however, must be qualified, and balanced by other, positive outcomes, such as setting in motion the diversification of the economy beyond the primary stage. (For overall results and the measure of success, see pages 13–15 below.)

The strategies of the 1960s, and partly of the 1970s, also contributed to the continuation of the industrial and inward-oriented policies of the 1930s. As Balassa puts it, Turkey tried to escape the exclusive first stage of industrial import substitution based on non-durable and domestically adjustable consumer goods and to combine it with the second stage, where two options are open: outward orientation on exports enjoying comparative advantage; or continued import substitution, though no longer exclusively in domestically adjustable consumer goods, but also, and even mainly, in durable consumer goods and investment goods, such as machinery, production and assembling of cars, iron and steel products, and military equipment.[24]

On the whole, Turkey, like many other LDCs, opted for the second import substitution alternative, assisted by a high degree of protection from 1929 and on. This orientation helped Turkey, in the short run, in the 1930s and part of the 1940s, to improve her external balances, to enhance the feeling of economic and political independence, and to lay the foundations for the diversification of the economy. In the longer run, however, this strategy proved, on balance, disadvantageous. The costly, capital-intensive plants with under-utilised capacity and the resultant absence of economies of scale, together with the shortages in physical and high-grade human capital, resulted in inefficiency, supported by protectionist policies, in artificial price structures, dictated largely by the state, in inflation, and in fluctuating but for the most part overvalued official exchange rates with their adverse impact on exports. All this was apart from the serious neglect of those sectors, in particular agriculture and agro-industries, which could have enjoyed a comparative advantage under more adequate, propitious strategies. Thus the price of inward-oriented development strategy was excessive and led in combination with other factors, to frequent disruptions of the whole economic, social and political system, often accompanied by economic interventionism, even in the 'liberal' Menderes period, and intermittent military intervention.

International comparisons show that export-oriented strategies in free-trade LDCs, such as Taiwan, Korea, Singapore, and even some Latin American economies fared much better, on the average, in the longer run than the inward-oriented policies of countries such as Turkey or India. As Balassa shows, the share of exports in the output of manufactures of the first-mentioned group had reached about 50 per cent by the mid-1970s, and there was a clear positive correlation between exports, on the one hand, and growth and balance of payments, on the other, in the period 1963–73. Later on, on the heels of the distortions in the world markets and the recession, the balance of payments in the export-oriented countries was adversely affected, but the positive correlation of exports and growth was maintained.[25]

In one important respect the development plans of the 1960s differed from those of the 1930s: although they continued to focus on industry, with regard to allocation of resources and the expected rates of growth stimulated by this sector and on import substitution, they were formulated as *comprehensive* plans (in accordance with the original concept of Atatürk, but unlike the actual plans of the 1930s), designed to integrate overall allocation of resources and all sectors of the economy.[26] The 1963–67 five-year plan was accompanied by a long-term 15-

year development programme, which envisaged for the mid-1970s the following results: 6.5 million additional jobs; a growth of 175 per cent in real GNP and of 74 per cent in GNP *per capita*; a fall in agricultural occupation from 70 to 58 per cent of the work-force and an increase in industrial occupation from 10 to 16 per cent, and in services from 13 to 26 per cent. The third five-year plan, 1973–77, was again accompanied by a projected programme until 1982, with an average annual growth target of 7 per cent.[27]

Practically, even in the pronounced interventionist policies, such as those of the 1960s and intermittently in the 1970s, the government and the SPO were able to apply relatively mandatory planning only to the SEEs — chiefly in industry and to some extent in banking — to the public service sector, and to fiscal monetary policies, all with limited degrees of success. The agricultural sector, private industry, non-public services and a substantial part of housing were in fact either residuals of the planning process or independent entities, some important and some marginal. Necessarily, the imbalances and bottlenecks inherent in every economic system, whether free or centrally planned, became even more pronounced in Turkey's 'hybrid' economy,[28] where, apart from the prevailing philosophy, the planned public sector and the free private sector vied for resources, priorities and government support. Moreover, each sector had to face the problem of dealing with its own internal imbalances and bottlenecks. In fact, a significant shift occurred during this period in the balance between public and private entrepreneurship. For instance, the share of public investment in industry fell from 80 per cent in 1963 to 50 per cent by the end of the 1970s. This resulted not only from an increasingly dynamic private sector and more liberal and lenient government policies, but also from the limitations of the public resources following budget deficit and setbacks in the SEEs.

Paradoxically, it was precisely when the *pragmatic* interpretation of etatism seemed to be gaining ground, when awareness was growing of the frustrating nature of the planning machinery and its ineffectiveness, resulting even in actual lack of planning,[29] that a sharp reaction took place. This reaction took the form of a revival of the ideological essence of Kemalist etatism, chiefly among Turkish Marxists, on the heels of the *dependencia* theories, the new international economic order, and notions of self-reliance. The left-oriented economists revived and to a certain degree reconstructed the views of the Kadro group in the early 1930s.[30] Also paradoxically, this ideological approach permeated the spirit of the new military regime of 1980. This regime, however, which started out with a combination of anti-protectionism and monetarism plus price control, and then quickly reverted to Kemalism, interpreted in terms of outright interventionism, has more recently turned to the market mechanism for salvation from domestic and external economic and financial difficulties (although without abandoning its allegiance to Kemalist principles).

In the course of time, etatism ceased to be an official principle, and it was dropped from the binding text of the constitution. In Article 2 of the new constitution of 1982 only three 'arrows' were retained out of the original six. The article runs as follows: 'The Republic of Turkey is a democratic, secular and social [*'demokratik, lâik ve sosyal'*] state, governed by the rule of law; bearing in mind the concepts of public peace, national solidarity and justice; respecting human rights; loyal to the nationalism of Atatürk, and based on the fundamental tenets set forth in the Preamble.' The wording of this article hints at certain other original 'arrows', but does not mention etatism as such. Though Articles 47, 65, 166 and 167 deal with the possibility of nationalisation, with the duties of the state in economic and social fields, and with planning of economic, social and cultural development, they stop short of embracing etatism and leave the door open to economic strategies of any kind.[31]

Is this ambiguous presentation in the constitution the result of a 'mixed-up' economic scenario, or has it deeper roots in the very concept of development strategy in general and in its Turkish context, in particular?

The following sections and chapters deal extensively with these and related questions, in an attempt to offer the relevant clarifications and answers.

TRIALS AND TRIBULATIONS OF PLANNING STRATEGIES

The attempt to take a retrospective and prospective view on development planning in Turkey is associated with the traditional argument on planning versus liberalism, and on the very feasibility of planning under a specific economic system. In contradiction to the historically based concept that planning and etatism, or other forms of central state activity, are indivisible, twin entities, some liberal-minded economists contend that planning is feasible precisely in a market economy, with its interplay of economic laws and forces, according to which forecasts, expectations and plans can be formulated.[32] It is difficult, moreover, to reconcile rigid mandatory central planning with international planning and mutual adjustment. Democracy and free choice can be considered, furthermore, as an economic good, which has its price (or cost), as have other more tangible consumer goods. If a society is not ready to pay the price, it must be prepared for the consequences. It can be pointed out, of course, that self-discipline and sacrifice — either industrial discipline or consumer behaviour — also have a price or cost and benefit to be included in the welfare calculations.

Republican Turkey is a typical case of a country in which the price of both democracy and self-discipline has been evident throughout its entire history. This case also illustrates how an impressive mechanism for comprehensive planning can actually fail to provide adequate and satisfactory implementation of planning, and may substitute short-term, pragmatic 'solutions' to domestic and external economic problems for determined and consistent long-term planning.

In planning, a number of dichotomies must be faced, such as savings versus consumption, profits versus wages, wages versus full employment, infrastructure versus 'productive' sectors, vital imports versus the balance of payments, import substitution versus export drive, industry versus agriculture and, last but not least, growth versus equality.

All this requires a large degree of sophistication and flexibility, in particular in view of the interplay between the economic game and the extra-economic forces. The resulting task of correcting the planning itself and its execution belong to the government, which can expedite the process via the public sector, fiscal and monetary policies, and other supportive *or* discouraging methods. Certainly, the social and economic philosophy of the regime has always been a critical factor, but several decades of development experience in Turkey and elsewhere have proved the validity of a convergence and flexibility, akin to *indicative* planning, in preference to rigid mandatory planning.

Three main development planning periods in Turkey may be distinguished:

(a) the inter-war period (the 1930s);
(b) the decades of the 1960s and 1970s;
(c) the 1980s, still experimenting with strategies and policies.

The first two periods can be analysed in retrospect, on the basis of empirical findings, while the third, embodying the trends emerging in the 1980s, will be dealt with at length as our main subject.

Before embarking upon the assessment of the formal planning periods, let us comment briefly on the non-planning strategies and some experimental devices that were employed in an effort to combine etatism and planning with free enterprise. These non-planning strategies have been employed, intermittently, in all periods.

The years of reconstruction of the 1920s, and later on the turbulent 1940s, the Second World War and the immediate post-war years, cannot be discussed in terms of deliberate planned development strategies, despite the Marshall Aid to Turkey and the emergence of a proclaimed 'new etatism' (*Yeni Devletçilik*) in the late 1940s. This new etatism proclaimed that public services should be controlled by the government, while the rest of the economy 'should not be denied' to the private sector. Also, unemployment, largely generated by the gradual mechanisation of agriculture, was to be taken care of by the new etatism. The main stress was on the necessity of planning, the focus of etatism, as 'opposed to a free economy'.[33] This new etatism remained, however, at least until the 1960s, only the declared programme of a party which was subsequently ousted from power for a whole decade.

While in the early 1940s a kind of controlled war economy prevailed almost everywhere, the 1950s brought a clear departure from etatism and central planning. This period was characterised by an encouraging of the influx of foreign capital and foreign interests, invoking too heavy commitments and danger of insolvency. It also faced the rural–urban push–pull effect and the emergence of *gecekondus* (shanty towns), and polarisation of wealth and income. Thus despite some success in the first part of the 1950s, the politically oriented 'total outlay' policies quickly resulted in a 'balancing' economic failure in the second half of the decade and in political and social upheavals and, finally, in the overthrowing of the Menderes regime in 1960 and, soon after, in centrally planned development again getting the upper hand. In the present context the period of the 1940s and 1950s is a deviation from the planned development concepts and strategies of the two adjacent periods, the 1930s and the 1960s.

THE OBJECTIVES AND RESULTS OF PLANNING IN THE 1930s

The main targets of the 1930s were: rapid development through an increase in physical production, chiefly in industry, without major consideration for the cost element; improvement in the balance of payments; raising living standards through economic growth and agrarian and social reforms; and economic independence and reliance on domestic resources. The chief instruments deployed were etatism, five-year plans, economic legislation, state banks and state economic enterprises, together with removal of capitulatory tariff restrictions, and gradual nationalisation, against compensation, of foreign-owned enterprises, mainly in transportation and public utilities.[34]

The village continued to represent the absolute majority of the population and labour force, characterised by poverty and backwardness, and a practical absence of any serious and extensive land reform. After the initial attempts at land reform in the 1920s, and limited land distribution of 300,000 hectares to 88,700 families in the course of the 1930s, land reform had to be deferred due to the resistance of the *esraf* until the middle of the 1940s, and even then it was carried out on a relatively modest scale, in particular when it came to concrete implementation. On the eve of the Second World War about half of the peasants were landless, subsisting under poor living conditions as small tenants or agricultural workers.[35]

Until the end of the 1930s, the city had not yet enjoyed the 'pull effect', because of the limited urban opportunities and industrial depression in the early years of that decade. Although the village was also depressed, due to the neglect of the central authorities on the one hand and the world crisis on the other hand, nevertheless — as even in the industrial West in that period — it served as a refuge for some urban or urban-oriented families hit by the depression.

In the second five-year plan, as in the first, of the 1930s, 'account has been taken of industry which is compatible with the economic structure and conditions [of the country]. It calls for large capital outlay and techniques, and is based on local raw materials.'[36] The stress was now on producer and capital goods, as well as on improvements in infrastructure. The planned projects were to be financed by the state banks — Sümer, Eti and the Maritime Bank — compulsory savings (loans from the public) channelled into the development budget, and three major foreign loans (American, Russian and British).[37] Together with private and semi-public investments, total investment in the 1930s amounted to 900 million Turkish liras, or 10 per cent of GNP.[38] Though not very impressive in itself, this sum was fairly well utilised, as demonstrated by the average rates of growth indicated below.

The proximity of Turkey's industrial drive in that initial development effort to the Ottoman past and its inheritance, and the world depression, may constitute a partial explanation and excuse for inadequate formulation and execution of the 1930s plans (though the outcome of the Second World War was mainly responsible for the suspension of the plan). At the same time, it was precisely this proximity that makes certain non-negligible achievements, which were able to form the basis for future activities, all the more remarkable. This relates not only to tangible material success, such as overall growth of the national product and the beginnings of diversification of the economy beyond the primary, peasant-agricultural stage,[39] but also — perhaps even more so — to the Kemalist attitude to issues of education, secularism, science and technology, industrial mentality, and the consolidation of a more homogeneous national state. These seeds fell partly on barren ground, but also partly contributed to the further evolution of the Turkish society. Some of these developments are considered today, perhaps unjustifiably, as reversible (for instance, secularism, in a surrounding world of religious revivalism), some as inadequate (for instance, in the area of education or industrial mentality), and some as opposed to the liberal concept of pluralism (as against a national or even nationalistic state). These are certainly controversial issues, but the ideas themselves, propounded by a leadership with vision and courage, were undoubtedly innovative in a traditional society, and they must be taken seriously by protagonists and opponents alike.

As a result of the planning and development policies of the 1930s, national product started increasing, particularly from the mid-1930s, and a real *per capita* growth of 4 per cent annually (a simple average of 16 per cent during the years 1935–9) was registered. Current accounts in the balance of payments improved also, thanks to a favourable balance of trade (goods only) in all years except 1938, though current accounts (including invisibles) still showed deficits due to services and financial commitments such as commercial shipping and reimbursement of foreign debts.

The overall rate of growth was affected by slower progress in the strongly fluctuating agricultural sector, with its average annual rate of about 2 per cent in the 1930s, and the much steeper rise in industry, at an average annual rate of about 10 per cent, enhanced in particular by mining and modern manufacturing sectors at the expense of traditional crafts. Although occupational structure in that period almost did not change, the share of industry in the national product increased from 14 per cent in 1929 to 19 per cent in 1939. The relative shares fluctuated chiefly with the fluctuations in agriculture. Another structural change was registered in the absolute and relative increase of industrial crops in agriculture, which, together with the development of mining, occurred in response to the largely autarkic strategies oriented towards domestic, import-substituting supplies of raw materials in the context of planned rapid industrialisation.

With a still modest rise in *per capita* product, a maintaining of the proportion of about 80 per cent of the population living in rural areas, mobilisation of all available resources for investment in new industrial and infrastructural projects with rather long gestation periods, and substantial military spending, living standards improved only slowly and slightly, and social reforms remained dormant.[40]

The comparative neglect of agriculture and the vicissitudes of the Second World War, even though Turkey stayed out of the war until almost its end, prepared the ground for the political and economic changes of the 1940s, and in particular of the 1950s.

THE AFTERMATH OF THE SECOND WORLD WAR AND THE 'LIBERAL' PERIOD OF THE 1950s

Etatist policies survived during the Second World War largely due to the necessity for government controls in the face of war conditions, as in all the countries involved in the global conflict. Strict measures proved imperative in Turkey, despite her neutrality until almost the end of the war. Major government intervention was made indispensible by the need for stricter allocation of resources, both foreign and domestic, in finances, manpower, raw materials, capital and consumer goods. It was particularly imperative in the shifting of a substantial share of production and services from civil to direct or indirect military purposes to handle the complicated transportation systems, which were frequently blockaded and crippled, thus leading to the cutting off of supplies to the whole Mediterranean basin and in the achieving of self-sufficiency under emergency conditions. As a matter of fact, Turkey's etatism made the transition to a war economy easier than in many other countries.

Some of these emergency requirements resulted in particularly severe measures, such as the *Varlık Vergisi* (the capital levy), which discriminated mainly against minorities.[41] At the same time, however, certain cracks, which had already begun to appear in the etatist policies at the end of the 1930s,[42] continued to widen. The impact of the economic strain on the heels of the development drive, the need to revise provisions concerning the state banks and enterprises, which were aimed at greater autonomy on the one hand and greater responsibility, accountability and efficiency on the other, and an attempt to meet in a more favourable spirit the requests of the private sector, initiated by the late 1930s, under the influence of Celal Bayar, a softening of the more rigid concept of Inönü and a more liberal interpretation of etatism. However, this proved to be a short interlude only, curtailed by the outbreak of war and mobilisation of labour power and resources, particularly following the law on national protection of January 1940, which granted the government the power to 'take over completely the national economy',[43] and the earmarking of 50–60 per cent of the public budget for defence expenditure.

Though some Turkish industries benefited from war conditions in that they were offered a kind of 'protectionism', on the whole the development of the economy came to a standstill. While wholesale and consumer prices more than quadrupled during the six-year war period, *per capita* income in constant prices remained stationary and living standards fell, following the reduction of disposable income by taxes and compulsory loans. In addition to all this was the money printing for financing the growing public deficits. Only foreign trade showed favourable balances, mainly due to lagging imports, but also thanks to foreign demand for Turkish primary, mineral and agricultural products. This benefited the external balances, but impaired domestic consumption and production, stopped some vital imports and inflated the COL index.[44]

In the transitional post-war period, until 1950, two major events took place: on the political level, with the introduction of democracy and the dissolution of the one-party system, the new anti-etatist Democratic Party came into being officially in January 1946, and ultimately took over power in 1950 from the, until then monopolistic, Republican Party; on the economic level, in 1948 Marshall Aid was granted to Turkey,[45] which became a member of the Organisation for European Economic Co-operation, thus advancing not only the availability of economic resources, but also promoting Turkey's ties with the West and, consequently, exposing the country to more liberal ideas and domestic policies.[46] The new agrarian reform of June 1945, Laws for the Encouragement of Foreign Investments (a recurrent phenomenon in republican Turkey), the third, and abortive, five-year plan, prepared in the summer of 1946, and even the 'new etatism' of 1948 may be viewed as early attempts to thrash out a combination of etatism and liberalism.[47]

Together with the two major events mentioned above, other factors contributed to the change in economic policies that came about with the victory of the Democratic Party in the 1950 election. These factors were: the outcry from the neglected and ignored village and agricultural population and peasantry living at subsistence level; the growing intolerance of the inefficiency and mismanagement of the public sector and its monopolistic structure, with its resultant high-cost and low-standard production; and, last but not least, the desire to be rid of the continuous arduous strain of development efforts of the 1930s and the emergency war measures. International economic bodies supported the growing domestic demand for more balanced growth, greater integration of agriculture into the development strategies, and overall liberalisation of economic life.[48]

The 1950s can be subdivided in two periods, namely, the first and the second quinquennium. The first five years were characterised by a total outlay (quasi-Keynesian) approach, extensive infrastructural and other long-term projects, which necessarily contributed, under the conditions then prevailing in Turkey, to inflationary repercussions,[49] support for private initiative and attempts at selling public enterprises to the private sector. However, while manufactured value added (MVA) of private industry increased, it surpassed the growth in the public sector only in textiles. Private enterprise also played an increasingly active role in mining, in particular of chromium. But a more significant change in favour of private initiative started on a major scale only towards the end of the 1970s.

In the final analysis, the government was not ready to part with the healthier public enterprises, and the private sector was not enthusiastic about the prospect of acquiring the inefficient and risky ones. In fact only in shipping and the oil industry did denationalisation gain ground, though here too the government retained substantial control. Partnerships of the state and private enterprises did increase, but this also involved public participation in the private sector where none had previously existed. Thus, while the *principles* of etatism and planning were abandoned by the Democratic regime, in reality the structure of the economy did not change, due to a certain degree to electoral pressures and considerations which, *inter alia*, dictated expensive infrastructural and even industrial ventures in outlying Anatolia; all this was not well integrated into comprehensive economic programming and efficiency considerations.

The second quinquennium of the 1950s was characterised by increasing inflation, foreign and domestic indebtedness, accompanied by a cumbersome system of surcharges on imports and subsidies to exports, shortages in the supply of producer and consumer goods, budgetary and current account deficits, a depreciation of the Turkish currency, with artificially sustained, though differential, nominal rates, resulting in the extensive prevalence of black market rates of exchange.[50] From the mid-1950s the system degenerated into one of extreme interventionism, tough price controls, in the face of growing inflationary pressures and difficulties in the balance of payments, credit restrictions, and other fiscal, legislative and administrative measures accompanied by the traditional red tape.

In 1958 the government was induced and assisted by international financial bodies to consolidate its foreign commitments, to devalue the Turkish lira, with differential effective rates, and take other steps to put domestic economic affairs in order. However, continued deficits, production marking time, supply shortages and growing disintegration of the eco-political system doomed the 1958 reforms to failure and led to the ousting of the government itself by the military coup of May 1960. Thus by the end of the 1950s the economy was devoid of both planning and *laissez-faire*. This strategic disorientation was reflected in the economic parameters of the country, with the second half of the 1950s erasing many of the achievements of the first half.

Money supply (M1) increased sixfold between 1949 and 1959. The index of wholesale prices (as well as the COL index in Istanbul), based on 100 in 1949, had risen to 222 by 1959. The deficits of the public budget had increased 19-fold in current terms by 1956/7 and started decreasing only from 1957/8 with the onset of the intervention of international bodies. This proves, of course, that rapidly growing indebtedness, in addition to that to the Central Bank, was a major source of financing deficits.

Between 1950 and 1960, total public debt increased, in current terms, 3.6 times: the internal debt 2.4 times, and the external debt 6.5 times. The increase in the external debt resulted from a tenfold increase in trade and current account deficits, due to imports growing at rates over and above those of exports, and deteriorating terms of trade. While the terms of trade climbed to 130 (1948 = 100) in the 'Korean' period of 1950 and 1951, they then proceeded to fluctuate, falling to 103 in 1959.[51]

In the same ten-year period, total net national product at constant prices grew by 70 per cent, which amounted to some 2.2–2.3 per cent of annual *per capita* growth, deriving mainly from the impact of the dynamic first quinquennium.[52] While mining and industry registered significant progress, paradoxically agriculture, though it figured high in the 1950s on the scale of policy preferences and benefited from public investments in mechanisation and irrigation schemes, marked time, with widely fluctuating crops (mainly under dry farming) and prices affected by ups and downs on the international market. The index of physical output doubled in the course of the 1950s (if the rather doubtful official figures are to be relied upon), but the downward trend of prices after the Korean war resulted in an only slight increase in rural income and in a reduced agricultural share in GNP. A further result of this insufficient growth in agriculture, which was unevenly distributed between the richer strata of big landowners and poor peasants, tenants and rural workers, was the push–pull effect of urbanisation and the pressure on the urban sector, whose share in total population increased in the 1950s from 25 to 32 per cent.

Despite the rejection of etatism by the Democratic government, which was implicitly also opposed to autarky, the import-substitution policies did not actually change. This is true mainly for industry, in view of both the demand and supply elasticities of this sector (price as well as income elasticity), and the still under-utilised domestic agricultural and mineral raw materials. Also the migration from village to city required creation of new job opportunities for the already previously unemployed and the new arrivals.[53] In the latter part of the 1940s and in the 1950s, Turkish industry no longer enjoyed the Second World War conditions, which obviated serious competition from abroad and a confrontation between domestic and international costs. On the other hand, the onset of Marshall Aid and the better supply of machinery, spare parts and certain raw materials enhanced the further promotion of the industrial sector. Earlier investments maturated in the course of the 1950s, and the average annual industrial growth in that decade reached about 6 per cent, causing a doubling, on a cumulative scale, of the industrial product in real terms by the end of the 1950s.[54]

Significant progress was registered in the area of literacy and education on all levels, with its long-range beneficial impact on future development of human and total resources of the country.[55]

On balance, the successive liberal and interventionist policies of the 1950s, the traditional and even more cumbersome bureaucracy, the over-emphasis on long-term, and partly conspicuous investments, and the poor co-ordination between the major sectors, despite the proclaimed adherence to 'balanced growth', resulted in domestic economic, financial and monetary upheavals, complications in external balances and social unrest.

PLANNING AND PERFORMANCE FROM 1960 UNTIL 1980

The 1960s set off a complicated domestic and external economic situation: serious inflation and unemployment, a substantial gap in foreign accounts and social unrest. This was the heritage of the unfortunate second half of the 1950s, though its roots were deeper. The military coup of May 1960 against the Democratic Menderes regime symbolised the particular role of the army as the guardians of Kemalist principles, of 'guided democracy', and of political, social and economic stability. At the turn of each of the next two decades, the army intervened in the political and, in fact, also in the socio-economic life of the country. Preservation of a social system, in this case by a military watchdog set against political and social upheavals, always leads to ambivalent results: on the one hand, it returns and retains an atmosphere of continuity, stability, security and confidence — all beneficial to business and investments; on the other hand, it fossilises conservative forces and structures, and prevents desirable changes. More often than not it defends vested interests, which may contradict the very principles (Kemalist, in the case of Turkey) of social and economic evolution. This happens even if the military leadership initiates a new constitution that grants, formally, more political, professional and individual freedom, and sets up new institutions designed to plan and implement social and economic changes (such as the Turkish SPO).

The 1960 military takeover, and the subsequent return to planning strategies, changed the national scenario, although the country was very soon subjected again to political, social and economic predicaments. The imperfect civil leadership that followed the first two military coups, in 1960 and then in 1970, proved unable to maintain stability and sustain continuous progress simultaneously. The resulting social and political unrest and economic difficulties brought about yet another military intervention in 1980.[56]

The strategies of the 1960s and partly also those of the 1970s restored the fundamental concept of planning of the 1930s, still based mainly on the industrialisation drive and inward-oriented (that is, import-substitution) policies, supported by a high degree of protectionism.[57] In the past this strategy had paved the road to greater diversification of the economy, improvement in external balances and consolidation of the spirit of economic and political independence. But in the longer run it gave rise to growing inefficiencies, cost-plus methods leading to distortions in the allocation of resources, deeper social inequalities, and, with the increased involvement of Turkey in the post-Second World War international market, the disadvantages of former strategies started emerging. This was reflected in the absence of economies of scale, under-utilised capacity, artificial price structures and unrealistic rates of exchange, with adverse effects on exports and neglect of such sectors as agriculture and agro-industry.

Still, the five-year plans of the 1960s and 1970s differed from those of the 1930s in their comprehensiveness and more modern models. While industrialisation and self-sufficiency (that is, inward orientation) still constituted the backbone of the plans, they aimed, however, at the integration of all sectors of the economy and at overall allocation of resources.[58] The underlying philosophy was still an emphasis on quantitative growth, with an implicit belief in the 'trickling down' theory. Thus a 7 *per cent* sustained annual growth target was set for the plans, aiming at an annual *per capita* growth of about 4–4.5 per cent.

These were, of course, the basic assumptions and targets of the new planning concepts, while their real test was manifest in their implementation and degree of success. Four plans emerged during that period: 1963–7; 1968–72; 1973–7; and 1979–83.[59] The fourth plan, which put greater stress on better co-ordination of planning in relation to market forces and to comparative advantage, already forms part of the 1980s scenario, as does the fifth plan, 1985–9. The domestic political and socio-economic unrest which led to the second military takeover in 1970 and to the third one in 1980, as well as external factors, such as the oil boom that began in 1973 and the subsequent oil glut of the early 1980s, and stagflation in the Western economies, adversely affected the implementation of the plans and the projected targets and expected results.

While 1973 was a relatively good year for the Turkish economy, the following years witnessed the adverse impact of two factors in particular: first, the upsurge of oil prices; secondly, the stagflation and unemployment in the industrial countries.

The sharp change for the worse immediately after 1973 must be attributed first of all to the global oil situation: in 1974, while imports of oil increased quantitatively by only 30 per cent, their cost rose by 350 per cent; the trade balance deficit increased fourfold as compared with 1973; the current account changed from a surplus of US$660 million to a deficit of US$561 million; terms of trade deteriorated from 106.4 (on the 1968 basis of 100) to 84.6 in 1974; and foreign reserves fell from US$1,969 million to US$1,708 million. The deterioration continued and became even more serious in the following years.[60] Although import prices and domestic inflation were affected by other factors as well, the price index moved on the whole along with the trend of the oil prices.[61] The contention that the real cause of deterioration in the 1970s was mismanagement and not the oil surge,[62] can hardly explain the dangerous turn in foreign accounts, though it may have been true with regard to many aspects of Turkey's long-term economic trends. While, for instance, in 1973 the oil bill still constituted only 10 per cent of Turkish imports, it had risen to 25 per cent by 1977. In absolute terms, it increased from US$1.7 billion in 1973 to US$3.8 billion in 1980.[63]

Although the contribution of industry to GNP, at the rate of 23 per cent, and particularly of services and construction, at 54 per cent, increased at the expense of agriculture, with 23 per cent, at the end of the 1970s, the occupational structure changed less than envisaged by the 15-year programme of 1962/3.[64] Even this moderate change was an autonomous result of rural poverty and exodus rather than of planned and well-designed action. Additional urban jobs lagged far behind the ambitious target, labour surplus was on the increase, though it was partly set off by emigration of labour abroad, with the inevitable adverse effect on the growth target.

The net results of the plans of the 1960s and 1970s and their implementation were: uneven and discontinuous growth, for the most part falling behind targets and expectations; a still backward agriculture; more surplus labour in both rural and urban areas; deficits in the public budget and on current account; and, particularly in the late 1970s, an inflationary spiral with all its economic and social repercussions. The spread of social and political unrest and even the neo-fundamentalist trends undoubtedly derived from deeper undercurrents of frustration and dissatisfaction with persisting and widening inequality, and not only from political propaganda.

NOTES

1. The contention that Atatürk's reforms could hardly have been imagined without the previous *Tanzimat* reforms is not tenable. The formal resemblance of some of them and the application of the *post hoc ergo propter hoc* theorem (and fallacy) are not convincing. It was

precisely the innovative character of the Kemalist reforms, against the background of the traditional and barren past and contemporary society, which made it difficult in practice to impart them to the conservative masses, unimpressed as they were by the attempts at legislative modernisation of the nineteenth century. For an opposite view see U. Steinbach, 'Im Spannungsfeld zwischen Marxismus und Islamischem Fundamentalismus: Ende der Verwestlichung', in *Die Türkische Krise*, Friedrich Ebert Stiftung, *Analysen*, no. 88/90, February 1981, p. 50. Also O. Okyar, in an interesting paper on the *Tanzimat*, considers the latter as a vital historical link, leading from the theocratic, monistic Ottoman Empire to the 'secular, pluralistic Turkish Republic'. While the historical importance of the *Tanzimat* as an early attempt at modernisation must not be denied, its relevance to the republican period and its character as a 'link' between the past and the present raise many doubts and questions. The subject certainly deserves further examination but is outside the present context. Compare O. Okyar, 'A new look at the recent political, social, and economic historiography of the Tanzimat', *Colloques internationaux du CNRS*, no. 601 — *Economies et Sociétés dans l'Empire Ottoman*, 1983, *passim*.

2. Compare A.G. Ökçün, *Türkiye İktisat Kongresi, 1923 — Izmir*, Ankara, 1968, in particular pp. 430 ff. and B. Berberoğlu, *Turkey in Crisis*, 1982, p. 24.

3. Gazi Mustafa Kemal, *Nutuk*, 15–20 October 1927, Devlet Basımevi, Istanbul, 1938, *passim*.

4. Ziya Gökalp, *Türkçülüğün Esasları*, Istanbul, 1939 edn, pp. 37–52, 137–8, and *passim*.

5. Compare Z.Y. Hershlag, *Turkey, an economy in transition*, Van Keulen, The Hague, 1958, p. 37.

6. Compare Caglar Keyder, *The definition of a peripheral economy: Turkey 1923–1929*, Cambridge University Press and Editions de la Maison des Sciences de l'Homme, Paris, 1981, *passim*, and Z.Y. Hershlag, review of Caglar Keyder's book, in *International Journal of Middle East Studies*, vol. 16, no. 3, August 1984, pp. 427–430.

7. For a more extensive and detailed analysis of this period, see Hershlag, *Turkey, an economy in transition*, 1958, and *Turkey, the challenge of growth*, E.J. Brill, Leiden, 1968, as well as Hershlag, review in *International Journal of Middle East Studies*.

8. *Geschichte der Türkischen Republik*, Gesellschaft zur Erforschung der Türkischen Geschichte, Devlet Matbaası, Istanbul, 1935, pp. 347–8; Institut National de la Statistique et des Etudes Economiques, *L'Intervention d'Etat dans l'Economie de la Turquie*, Notes Documentaires et Etudes, no. 988, Paris, 8 September 1948, p. 6.

9. *İstatistik Yıllığı*, Ankara, 1930, pp. 345–7.

10. Ibid., p. 253, and Şefik Bilkur, 'National income estimates in Turkey', *Revue de la Faculté des Sciences Economiques*, Istanbul, October 1950—January 1951, pp. 133–4.

11. For the Soviet connection, see K. Boratav, *Türkiye'de Develetçilik*, Gercek Yayınevi, 1974, p. 151 and *passim*, and Hershlag, *Turkey*, 1968, *passim*.

12. Compare *H.P. Uçüncü Büyük Kongre Zabıtları, 10–18 May 1931*, Istanbul, 1931.

13. Ibid.

14. See Atatürk's speech at the Fair of Izmir in 1935, according to T.C. İktisat Vekâleti, Sanayi Tetkik Heyeti, *2inci 5yılık Sanayi Planı*, 1936, pp. xxx–xxxi.

15. Recep Peker, *C.H.P. Programı İzahi*, Ankara, Ulus, 1931, and *Deux discours de R. Peker*, Ankara, 1935, pp. 13–14.

16. Compare Mükerrem Hiç (ed.), *Türkiye Ekonomisinin Analizi*, Güray, Istanbul, 1980, pp. 298–9; O. Okyar, 'The concept of etatism', *Economic Journal*, March 1965, p. 297. Okyar interprets Atatürkism as a concept which adheres to full political and economic freedom, and as a political and economic *system* (or framework) which has not changed over the years. What did change, according to Okyar, were economic policies. Hence his evaluation of etatism as a purely pragmatic venture. However, in particular in the Turkish case, the borderline between a 'system' and 'policies' has proved elusive, and etatism can hardly be interpreted as a shift in economic 'policy' *within* the framework of a 'free-enterprise system'. Instead, it can be perhaps contended that 'freedom' was the philosophy and the final Kemalist target, but with strategies and concepts adjusted to changing conditions.

17. See Atatürk's, Inönü's or Peker's statements in the text and Bibliography, as well as the RPP's platform of 1931 and the constitution of 1937.

18. This includes, in addition to growth in GNP, changes in social structure and in political power, as well as institutional and cultural transformation. See H.W. Singer, *The strategy of international development, essays in economic backwardness*, edited by Sir Alex Cairncross and Mohinder Puri, Bowering Press, 1975, p. 36.

19. Z.Y. Hershlag, 'Theory of stages of economic growth in historical perspective', *Kyklos*, vol. XXII, fasc. 4, Basel, 1969, and his 'Growth models for the Middle East', in M.A. Cook (ed.), *Studies in the economic history of the Middle East*, Oxford University Press, London, 1970.

20. For details see T.C. İktisat Vekâleti, *2inci 5yılık Sanayi Planı*, 1936.

21. Law no. 91, 30 September, 1960, published in *Resmi Gazete*, 5 October 1960.

22. The important, formally private, İş Bank had been established already in the 1920s.

23. Even in industry the share of public investments fell from about 80 per cent in 1963 to about 50 per cent at the end of the 1970s, a result not only of the greater dynamics of the private sector and more liberal government policies, but also due to the limited resources available following setbacks in the SEEs and budget deficits.

24. Compare Bela Balassa, 'Outward orientation and exchange rate policy in developing countries: the Turkish experience', *Middle East Journal*, vol. 57, no. 3, Summer 1983, pp. 429–47.

25. Ibid., pp. 433–5.

26. See Z.Y. Hershlag, *Economic planning in Turkey*, Economic

Research Foundation, Istanbul, 1968. To do justice to the policies of the 1930s, it should be pointed out that in particular in the second half of that decade significant legislation, administrative measures and practical steps were taken such as irrigation, machinery combinates, attempts at improving efficiency and rural reforms. Most of the measures were not implemented, however, due to the inadequacies of the administration itself, as well as due to the opposition and obstruction of the *esraf* (landlords) with their vested interests, in collusion with the clergy, whom the regime did not want to alienate. Compare D. Avcioğlu, *Türkiye'nin Düzeni*, 2 vols., Tekin Yayınevi, Istanbul, 1975, *passim*, also extensively quoted in B. Berberoğlu, *Turkey in crisis*, 1982, Chs. 3 and 4.

27. Compare Z.Y. Hershlag, 'Turning points in the economic history of Turkey', *Hacettepe Bulletin of Social Sciences and Humanities*, vol. 1, no. 2, Ankara, December 1969; and Institute of Economic Development Publications, *Problems of Turkey's economic development*, vol. 2, Faculty of Economics, Istanbul University, n.d, p. 29.

28. M. W. Thornburg, G. Spry and G. Soule, *Turkey: an economic appraisal*, The Twentieth Century Fund, New York, 1949, p. 39 ff.

29. *Economist*, 'Turkey: a survey', 12–18 September 1981, p. 5.

30. Although *Kadro*, a monthly magazine, was edited by the leftist Şevket Aydemir from the Kadro group, it also reflected the overall Kemalist concepts, in the contributions of such eminent leaders as Ismet Inönü. See, *inter alia*, Y. Küçük, 'Türkiye'de Planlama Kavraminin Gelişmi Üzerine' (On the Development of the Planning Concept in Turkey), in METU Studies in Development, *Türkiye'de Planlı Gelişmenin Yırmı Yıllı, 1960–1980*, Ankara, 1981.

31. *T.C. Anayasası*, Kanun no: 2709, published in *Resmi Gazete*, no. 1787, 20 November 1982. Also published in English by the Directorate General of Press and Information, *The constitution of the Republic of Turkey*. See the respective articles. Despite the continued separation of state and religion, and the preservation of the principle of secularism in the constitution, the latter made a concession to religious circles by stating, in Article 24, that 'instruction in religious, cultural and moral education shall be compulsory in the curricula of primary and secondary schools'.

32. Compare Hershlag, *Economic planning*, 1968, p. 19, and his *The philosophy of development revisited*, 1984, *passim*.

33. Tekin Alp, *1948 Türkiye İktisat Kongresi*, Istanbul, 1948, pp. 138, 141–5; Selâhattin Birkan, *Türkiyede Devletçilik*, n.d., pp. 10–33.

34. M. Selik, *Türkiye'de Yabancı Özel Sermaye*, Siyasal Bilgiler Fakültesi, Ankara, 1961; Z.Y. Hershlag, *The challenge of growth*, 1968, Ch. 6.

35. Land distributed from 1923 until the end of the 1930s totalled 1.5 million hectares, mainly unirrigated and in inadequate average units of 1.5–3 hectares. See Hershlag, *Turkey, an economy in transition*, 1958, pp. 78–9. Characteristically, the clash between the Kemalist reformists and the interests of the landlords was, among others, a non-negligible factor in the replacing of the long-ruling Republican People's Party by

the Democratic Party in 1950. See B. Lewis, *The emergence of modern Turkey*, Oxford University Press, 1968, pp. 474 ff.

36. *İkinci 5yılik Sanayi Planı*, 1936, *passim.*

37. Ibid.

38. *İstatistik Yıllığı, 1942–5*, p. 418.

39. World Bank, *Turkey, policies and prospects for growth*, Washington, DC, March 1980, p. 50.

40. See Z.Y. Hershlag, 'Turkey: achievements and failures in the policy of economic development during the inter-war period 1919–1939', *Kyklos*, Basel, 1954, pp. 323–53.

41. Hershlag, *Turkey, the challenge of growth*, 1968, p. 133.

42. Compare the speech of Celâl Bayar in the Meclis (Parliament), on 28 June 1938, in Cemal Kutay, *Celâl Bayar*, vol. IV, 1938, p. 1664.

43. Law no. 3780, dated 24 January 1940, published in *Resmi Gazete*, no. 4417, 26 January 1940.

44. *İstatistik Yılığı, 1942–5*; United Nations, *Statistical yearbooks* and *Yearbooks of international trade statistics*.

45. As a matter of fact, the contribution of Marshall Aid to Turkey, aimed in the Turkish case not only at post-war reconstruction but also at long-term development, was quite substantial at first, but declined, in both absolute and relative terms, as a proportion of total resources well before Turkey was able to set in motion her resumed 'take-off'.

46. ECA, *Turkey — country study*, February 1949; *Quarterly reports on the Marshall Plan in Turkey*, Ankara; Harry Bayard Price, *The Marshall Plan and its meaning*, New York, 1955, *passim*.

47. ECA, *Turkey — country study*, February 1949, pp. 57; *Economist*, 'Industrialisation in Turkey', 8 March 1947; Türkiye İktisat Kongresi, 22–7 November 1948, *Kongre Bülteni*, Istanbul, 1948.

48. OEEC, *General memorandum on the 1950–52 programmes, Turkey*, Paris, April 1950; IBRD, *The economy of Turkey*, mimeograph, Washington, DC, 1951, p. 76. The differences between the 'barren etatiste policy' and the prospects of private enterprises on a large scale were highlighted by the Finance Minister, H. Polatkan, in his budget speech in the Meclis on 18 February 1955. Compare Ministry of Finance, *Board of Financial Research Publications*, no. 1955–6, 67, Ankara, 1955, p. 12.

49. By the mid-1950s, 65–70 per cent of total public investments were spent on construction. See Maliye Vekâleti Yayınlarından, *Ana Hatları ile Bütçe*, Ankara, 1955, pp. 39–41; *İktisadi Rapor*, 1956, pp. 31–9.

50. *Economist*, 'A rescue operation', 9 August 1958.

51. DİE, *Aylık Dış Ticaret İstatistikleri, passim*.

52. For sources see: DİE, *İstatistik Yıllığı and Aylık İstatistik Bülteni*, since 1949; Istanbul Sanayi Odası, *Fiat Indeksleri*, May 1965; İktisadi Rapor, 1965; UN, *Statistical Yearbooks*; Merkez Bankası, *Monthly bulletins*; IMF, *International financial statistics*; İş Bankası, periodical publications.

53. Compare T.C. Başvekâlet, İstatistik Umum Müdürlüğü, *1955 Genel Nüfus Sayımı*, November 1955; DİE, *Census of population 1965*, Publications 359, 444, 452.

54. DİE, *Türkiye Milli Geliri*, 1965; UN, *Yearbooks of national accounts statistics*. See also Hershlag, *Turkey*, 1968, pp. 169–77.

55. DİE, *Census of population and statistical abstract*, Publication no. 380; IDA, *Economic and social indicators — Turkey*, April 1965.

56. Compare B. Berberoğlu, *Turkey in crisis*, 1982, Chs. 6 and 7.

57. Compare B. Balassa, 'Outward orientation', *Middle East Journal*, Summer 1983, pp. 429–47.

58. Hershlag, *Economic planning*, 1968; D. Avcioğlu, *Türkiye'nin Düzeni*, 2 vols., 1975; B. Berberoğlu, *Turkey in crisis*, 1982, *passim*.

59. DPT, *Kalkınma Planı*, Birinci, 1963–7, İkinci, 1968–72, Üçüncü, 1973–7, Dördüncü, 1979–83, Ankara.

60. See Chapter 7.

61. Institute of Economic Development Publications, *Problems of Turkey's economic development*, Istanbul University, n.d., pp. 2–4, 19.

62. Compare M. Hiç, *Developments since 1980 in the Turkish economy*, paper, mimeograph, n.d.

63. *Economist*, 'Turkey: a survey', 12–18 September 1981.

64. World Bank, *Turkey*, 1980, pp. 1–4. See also M.N. Danielson and R. Keleş, 'Urbanization and income distribution in Turkey', in Ozbudun and Ulusan (eds.), *The political economy*, 1980, Ch. 9. The urban–rural population distribution is not necessarily identical with occupational distribution. It is true that urbanisation in Turkey has proceeded rapidly since 1950, and the share of urban residents in the total is quickly approaching and according to the recent census of 1985 even exceeding the share of rural population. However, censuses are not entirely reliable; many urban residents are temporary only and urban occupations lag behind urban 'residents'. For further details see Chapter 2.

2

Population — Labour — Employment

DEMOGRAPHIC CHANGES

The employment issue will be revisited in its expanded and multi-faceted dimensions in the following chapters, which analyse its correlation with inflation and disinflationary policies, as well as the representative target of the development model. Here some basic facets of the human resources factor, including demographic and social aspects, are dealt with.

Since the days of Atatürk until the present, the political leadership and development planners have pointed out that human resources constitute the most important development factor. Therefore, 'the basic principle is to improve the qualities and characteristics of the population'.[1] This approach has involved dealing with a wide range of development components, such as education, training, family planning, migration, sectoral and regional distribution of employment and, last but not least, the social, economic and technological implications of unemployment coupled with stagnation in growth.

Population pressure weighs heavily on the Turkish economy, with 40.35 million people in 1975, 44.74 million in 1980, 50.66 million in 1985, an estimated 51.55 million in 1986, 55.54 million forecast for 1989, and 73 million by the year 2000. The estimates are based on the assumption that the falling trend of annual net population growth, from 2.5 per cent over the period of the early 1950s until the mid-1970s to about 2.1 per cent at present, will continue.[2] These estimates must be qualified, however, by the clear trend of a fall in total and infant mortality, and a significant increase in life expectancy to nearly 63 years for men and nearly 68 years for women, in the early

1980s. While the average annual birth rate fell from 46.7 per thousand in the period 1950–55, to 32.2 in 1975–80, the death rates fell more rapidly, from 21.1 to 10, respectively. Thus the net increase was reduced from 25.6 per thousand to 22.2, respectively.[3] However, in the intervening periods the net increase fluctuated around higher rates, and the same may still happen in the future. Thus even if family planning reduces the number of children born, this can be set off by an ongoing increase in life expectancy and child survival. While this in itself is a sign of long-term socio-economic improvements, it still forces the country to face the complicated issue of employment and adequate job opportunities.

While the country as a whole is far from being overpopulated, the change in population density has been very substantial, from 18 per square kilometre in the census year 1927 to 65 in 1985. In the province of Istanbul, the density rate rose from 830 per square kilometre in 1980 to 1,023 in 1985, and the population of greater Istanbul reached 5.5 million. In 1985, for the first time the overall urban population exceeded the rural population, at least according to the official census returns, in a proportion of 53 versus 47 per cent, following the much higher rate of increase in the cities due to the push–pull effect.[4]

STRUCTURE OF THE LABOUR FORCE, OF EMPLOYMENT AND OF UNEMPLOYMENT

In Turkish terms, the economically active population (twelve years old and more) constitutes about 43 per cent of the total population (about one-third of them women); in the mid-1980s the labour force numbered about 19.5 million.[5] This figure includes some 3 million unemployed, with a cumulative increase due to the continuous increment of the labour force. According to SPO findings, the rate of manpower surplus increased from 13.6 per cent in 1979 to 16.1 per cent in 1983 and 1984, and to 16.7 per cent in 1985, which makes for a total labour surplus of about 3 million,[6] including a rural surplus of 665,000.[7] The share of agriculture in total employment was estimated in 1985 at 58.2 per cent (which does not exactly corroborate the share of the rural population suggested by the 1985 census), the share of industry (including construction) 17 per cent, and of services 25.8 per cent. The relevance of the figures depends, of course, on the somewhat arbitrary definition of the various sectors and their employees. Other calculations show that the total civilian labour force of 18,493,000 was divided into 9.45 million in agriculture (including disguised unemployment), 1.91 million in industry, 596,000 in construction, 515,000 in transportation, 684,000 in trade, and some 2.53 million in various services. These calculations give a higher estimate for unemployment, of 3,475,000 or 18.73 per cent of the total labour force.[8] Many sources, including the State Institute of Statistics (SIS) in its 1980 census, contest this high figure, which, under the conditions prevailing in Turkey, may be uncertain indeed, due to seasonal, partial and unregistered employment. The OECD's estimate of unemployment for 1985 (based, of course, on Turkish sources) was 2,380,000, but it is not clear whether this included rural disguised unemployment. Accordingly, the share in the total labour force should be lower, at 12–13 per cent, though still on the increase.[9] Even so unemployment, which is on a gradual increase — despite the lower figures given by more optimistic sources — remains undoubtedly a focal issue of the Turkish economy. Also, registered unemployment, according to the data of the Labour Placement Office, which is only a fraction of the real unemployment, shows a rise from 882,197 in January 1985 to 996,703 in January 1986, and to 1,019,908 in February 1986.[10]

According to SPO (the 1985–9 plan), total civilian labour power will grow from 18.2 million in 1984, that is, somewhat less than according to other estimates, to 19.46 million in 1989, against a demand for labour of 15.71 million and 17.17 million, respectively. The rate of total (agricultural and non-agricultural) surplus should fall from 16.1 per cent to 13.9 per cent, if the projected reduction in absolute numbers, from 2,975,000 to 2,697,000, actually occurs. The surplus labour power, according to the same source, rose from 2,861,000 in 1983 to 2,975,000 in 1984 (and, according to other sources, to 2,902,000 in 1984, 3,056,000 in 1985 and an estimated 3,087,000 in 1986),[11] and it will not be an easy task to reverse the trend of a widening unemployment gap, which is the outcome of the inability to provide sufficient additional jobs to meet the pressure of the incremental labour supply.[12]

Industrial circles are even more pessimistic in this regard. They estimate that against an annual increase of the labour force by nearly half a million (a somewhat exaggerated figure in view of the actual number of about 350,000–400,000 only), the number of new jobs created fell from an annual average of 216,000 in 1970–75 to 136,000 in 1981, 100,000 in 1982, 110,000 in 1983 and 134,000 in 1984. Almost the whole burden of labour absorption fell on the shoulders of the urban sector, since agricultural employment decreased between 1962 and 1985, not only as a percentage of total employment but also in absolute numbers by about 350,000. While industry was able to absorb an additional 4.4 per cent of total employment, in fact a gain of nearly 50 per cent in industry's total share in employment, it was the services which increased their share in employment by an additional 12 per cent, thus reaching an overall proportion of about 25 per cent.[13] On the other hand, according to industrial circles, the urban sector, including services, is able to absorb the annual natural incremental growth of the urban population itself, but not the already existing unemployment and the continuous intake of the rural exodus.[14]

Regrettably, one of the central theoretical and empirical issues of the relations and mutual impact of inflation and unemployment cannot be easily answered. While it will be shown later that the disinflationary methods implemented in Turkey did result in growing unemployment rates, the period preceding the 1981 turning point cannot under the conditions then prevailing be seen as proving a definite trend. One of the reasons is the lack of reliable statistics, which may be attributed to certain singular features of the Turkish economy and society. Though periodically disputed by the administration and some economists, disguised unemployment seems to be quite extensive; also, the massive concentrations in shanty towns muddle the picture of actual employment and unemployment, while official, registered unemployment does not reflect the true open unemployment and its fluctuations.[15]

High rates of unemployment steadily accompanied Turkish development efforts from the start. In the course of time unemployment has been alleviated by Turkish labour migrating abroad,[16] up to 1 million workers and more, with remittances amounting intermittently to as much as US$2.5 billion a year.

Despite the undeniable importance of the Turkish migrant labour abroad, which has been constantly increasing since the early 1960s, from 11,000 in 1962 to about 1,150,000 by the mid-1980s, it nevertheless presents serious problems. It should not, of course, be considered unemployment on the domestic market; on the contrary, it contributes substantial remittances, and is conducive, in part at least, to better training. However, by even partial repatriation, it may significantly inflate domestic unemployment. While some of the repatriates retire and live on their savings, and others find employment, mainly as self-employed in their own independent ventures (garages, restaurants, small-scale shops), a certain number join the ranks of the unemployed.[17] Migrant labour constitutes, therefore, an element of uncertainty and a permanent threat to the domestic labour market. This is particularly important in view of the increasing unemployment in the host countries and their growing dissatisfaction with, and even hostility towards, expatriate labour, notwithstanding the reluctance of Western labour to undertake menial, low-wage jobs. Back at home, reintegration in the Turkish society, in particular of the second generation which has grown up abroad, proves difficult. Lower wages, even in foreign-owned firms, and dissatisfaction with the social, cultural and political environment, which may compare unfavourably to that of the country the repatriate has left, result in disappointment and frustration. In this regard, repatriates from Arab host countries readjust more easily.

ECONOMIC AND SOCIAL ASPECTS OF UNEMPLOYMENT

As already noted, we shall return to the inflation–employment relationship later on, but a few remarks are relevant here. Time and again, the economic decision makers are confronted with the problem of the 'trade-off' between inflation and employment. Rather than, for instance, Japan or Switzerland, it is the EEC and the United States which are referred to as examples of fighting inflation via high unemployment rates (though the United States succeeded more than the EEC in reducing the unemployment rates). Turkey's high and growing unemployment has not been accompanied by a sustained fall in inflation, except for the relatively short period of 1981–2. There is, however, a better positive correlation between both employment and reduced inflation, on the one hand, and the rates of real growth, on the other.

Economic circles in Turkey calculate that to reduce unemployment substantially, a sustained real annual growth exceeding 7 per cent *per annum* is required, but even the fifth five-year plan does not project such a rate of growth. The Tüsiad econometric model forecasted for 1985 a growth rate of 4.8–5.2 per cent only, and its estimates of inflation, 38–42 per cent, are also well above the government target of 25 per cent. Hence the rationale of the neo-Keynesian approach (to be discussed below), which does not neglect the need to control both the cost and the demand inflation to secure a satisfactory degree of stability, but attaches paramount importance to investment and growth (under the more attractive conditions of stability) for the sake of fuller employment.[18]

The traditional Turkish extended family with its mutual responsibility and support is gradually disintegrating both in the village and the city, a trend which makes the replacement of disguised unemployment by open unemployment unavoidable.[19] The rapid process of urbanisation will presumably continue at a rate double that of total population increase. By 1989, the respective shares of urban and rural population will reach 28 (possibly 29) and 26 million. This creates not only complex employment problems, but also problems of spatial redistribution, to reduce the already unbearable overcrowding of the large cities, of streamlining investment and industrialisation, of vital infrastructural projects, such as transportation and housing, and of extending the networks of water, sanitation, electricity and various other community services. Countries richer and more advanced than Turkey find it difficult to stand up to these tasks. Still, the growing awareness of these needs bodes well for the future.

Turkey is not economically capable of offering its unemployed European or American welfare conditions. Though the population is used to poor living standards, the country cannot afford to neglect the issues of poverty, income distribution and unemployment, not even in the short run, particularly in view of the growing urban concentration and its economic, social and political consequences. Official social insurance (medical care, and unemployment and retirement benefits) increased and was extended to some 40 per cent of employees (and about 48 per cent of population, if dependents are included) by the mid-1950s. Actual distribution of benefits, however, was unsatisfactory, deficits in the funds accumulated and services were poor. Recently contributions and standards have been upgraded, and the retirement age was raised to 55 years for men and 50 for women, in view of the increased life expectancy, which is still below that of the West. Though this may increase utilisation of labour power and save retirement pensions, it may also adversely affect the absorption of new labour into the economy.[20]

With all its importance, unemployment is not the only issue facing labour power policy-makers. Part of unemployment itself is the kind of technological, or frictional, unemployment resulting from ill-adjustment between demand and supply of certain professions and categories of labour. Already in 1984, demand exceeded the supply of electronic and computer engineers, physicians, dentists, medical technicians, nurses and midwives. This can be partly attributed to the brain-drain, but, regional distribution, too, is very unequal. An even more pressing problem is the shortage of medium-level technical labour power, a matter which requires readjustments in schooling and training. Though the educational infrastructure improved in the 1980s, and the rate of illiteracy has fallen from over 50 per cent (among those six years old and more) two decades ago to little more than 30 per cent now, the standards are still much below those of the West, particularly in terms of quality of education.

The fifth plan (1985–9) takes care of these issues and also places greater emphasis than in the past on problems of labour organisation, wage regulations according to skills and productivity, more adequate income policies, training and re-training. Apart from defending the interests of the workers, improvements in the area of unionisation are implicitly designed to avoid repetition of the past losses of working days through strikes and lock-outs.[21]

A greater emphasis on productive, preferably labour-intensive investment and on real growth would seem to have a good chance of success through co-operation of domestic and foreign entrepreneurship, which may serve to turn short-term stabilisation into a genuine long-term sustained development process. Here we find a certain affinity between the concepts of the structuralist, supply-side economics and neo-Keynesians (this is discussed in Chapter 6). The meeting point is the concern for effective demand and fuller employment, which, at least implicitly, involves reduction of poverty and more equitable income distribution because of a more comprehensive utilisation of physical and human factors of production. Even though the aposition of the doctrinal alternatives of *économie dirigée*, with its bureaucratic tendency to misallocate resources, and a liberal market economy, with its imperfect competition and other distortions, may obstruct the ascendancy of structuralist strategies, the latter, rather than the rigid, still prevailing textbook concepts, are pertinent to the real needs and ends of society and its economy. Turkey is no exception to this historically and empirically proved experience of both developed and underdeveloped economies.

NOTES

1. Compare DPT, *Fifth five-year development plan 1985–1989*, DPT, 1987, p. 139.
2. DİE, *Genel Nüfus Sayımı*, Census of Population, 20 October 1985, Ankara, 21 October 1986, p. 1.
3. Maliye ve Gümrük Bakanlığı, *1985 Yıllık Ekonomik Rapor*, p. 43.
4. DİE, *1985 Genel Nüfus Sayımı, Haber Bülteni*, 21 October 1986.
5. Excluded from the labour force are housewives, students, retired and disabled persons, rentiers and unemployed not seeking jobs. Compare Tüsiad, 1985, p. 53.
6. DPT, p. 143; Merkez Bankası, 1983, p. 23, presents higher figures and rates of unemployment, also based on SPO sources.
7. İş Bankası, 1979–83; *OECD Observer*, no. 139, Paris, March 1986.
8. Ibid.
9. OECD, *Economic outlook*, 40, December 1986.
10. Even more than other statistical data, information on employment and unemployment is highly unsatisfactory. If, for instance, disguised unemployment is included in the agricultural employment figures, the published total surplus labour (of some 3 million and more), which supposedly includes the rural surplus, does not represent the true unemployment dimension, that is, open plus disguised unemployment. Compare İş Bankası, 1980–84, p. 11. Tüsiad data are more specific in this regard. They put the total domestic labour surplus at 2,970,000, consisting of 665,000 disguised agricultural unemployment and 2,305,000 other, open unemployment. Compare Tüsiad, 1985, pp. 48–50, and DİE, *Aylık Ekonomik Göstergeler*, April 1986. For registered unemployment, see also OECD, *Main economic indicators*, November 1986.
11. DPT, p. 143, Table 86; T.C. Devlet Bankanlığı, *İşgücü İstatistik Bülteni*, Yayın No. 1, Ankara, February 1986. It is very difficult to reconcile the differing data, frequently from the same sources, and one must be satisfied with a rather general order of magnitude of numbers and percentages.
12. OECD, *Economic outlook*, June 1985, pp. 124–5.
13. Tüsiad, 1986, pp. 41 ff.
14. Tüsiad, 1985, pp. 46–8.

15. OECD, *Economic survey: Turkey*, Paris, 1980; Pamukbank, *Economic Commentary*, quarterly; *Turkey Today*, March 1979.

16. Labour migration on a serious scale started in 1960. Compare Hershlag, *Turkey*, 1968, p. 299 and *passim*.

17. Estimates of migrant Turkish labour abroad differ widely for a number of reasons: the uncertain figures for repatriates; the unclear division between long-term and short-term stay abroad; the often blurred distinction between actively employed, unemployed housewives and children. The latest available figure for mid-1986, given for the largest concentration of Turkish expatriates, in West Germany, estimates their total number at nearly 1.4 million; of this, about 500,000 are employees, 400,000 women (housewives) and 475,000 children. See *E + Z*, 8 September 1986, p. 29. In comparison with other sources, the estimate for the number of employees seems low.

18. See in Chapter 6 the neo-Keynesian re-formulation of the strategy, namely, demand management for the sake of full employment and wage-fixing policies to control inflation. What still seems missing from this model is the control of profit margins.

19. Compare Tüsiad, 1985, pp. 48–9 and Appendix.

20. DPT, pp. 169–73.

21. Ibid, pp. 148 ff.

3

The Transition to the 1980s

Turkey entered the 1980s with many new and complex problems, some of them more intricate than those of the earlier decades. This complexity involved the international economic and political environment, a re-thinking and re-shaping of development concepts and, last but not least, new factors in the Turkish domestic and economic terrain. We shall try to pinpoint the salient issues from the turn of the decade, the focal economic events and the newly emerging or, eventually, the more conventional concepts behind the economic policies and strategies embraced.

With the Justice Party assuming power in November 1979, an attempt was made to overhaul economic policies, in particular as from January 1980. On the domestic level, money supply, interest rates and taxation were to be readjusted, prices of the SEEs products increased, some controls waived, and incentives were offered to private and foreign entrepreneurship and to the export sector. On the international front, the government showed greater compliance with the requests of the IMF and OECD and strengthened ties with the West. All this proved to be too late and for the most part ineffective. Socio-political unrest and poor economic performance towards the end of the 1970s prompted the next military coup.

Following the relatively rapid growth between 1971 and 1977, with a low in 1973 only, the critical years 1978–80 registered a fall in the growth of GNP to 2.9 per cent in 1978, and negative rates of growth of −0.4 per cent in 1979 and −1.1 per cent in 1980. This meant, of course, a serious reduction in GNP *per capita*. The trade deficit of US$2.8 billion in 1979 shot up to US$4.6 billion in 1980, which even the increase in workers' remittances from abroad, from US$1.7 billion to US$2.0 billion in the same period, could not balance. In the course of one year, between 1979 and 1980, the cost of imported crude petroleum and petroleum products increased from US$1,762 million to $3,857, thus inflating the costs of all imported raw materials from $3,377 million to $6,158. With import prices, including oil, rising much more rapidly than export prices, the terms of trade, the trade balance and current account were necessarily adversely affected.[1]

Thus the first years of the 1980s started out in the shadow of the 1970s, with a lagging GNP, a deterioration in foreign accounts and runaway inflation. The inflation gathered momentum in the course of the late 1970s, and surpassed 100 per cent *per annum* in 1980, while the deficit on current account in that year exceeded US$3.4 billion even after deduction of workers' remittances, as mentioned above. This compelled the government to take recourse to short-term, high-interest borrowing to avoid imminent insolvency, until international financial bodies came to the rescue.[2]

From as far back as 1977, foreign exchange shortages have been causing bottlenecks in the supply of producer goods, spare parts and consumer goods, leading to a fall in industrial and total product and stimulated inflation. Notwithstanding the devaluation at the end of the 1970s, which was in any case

Table 3.1: *Maximum deposit interest rates, 1975–85*

Year	*Nominal rates*	*Real rates (deflated by wholesale price index)*	*Real rates (deflated by Istanbul COL index)*
1975	9.00	−0.97	−10.18
1976	9.00	−5.67	−7.31
1977	9.00	−12.15	−13.35
1978	17.25	−12.15	−27.63
1979	22.67	−25.16	−24.90
1980	30.00	−37.27	−33.07
1981	49.17	9.06	8.40
1982	50.00	19.76	13.04
1983	42.50	9.07	10.63
1984	53.00	0.65	5.08
1985	56.00	11.47	7.59

Source: Tüsiad, 1986, p. 59.

inadequate and quickly set off by accelerated inflation, the stubborn policy of overvaluation of the Turkish currency has rendered a disservice to industrial and even more so to agricultural exports, only half-heartedly supported, *inter alia*, through negative interest rates.[3] While between the 1930s and the 1960s the interest rates, regulated by law, were, more or less, in line with the relatively low inflationary rates, in the course of the 1970s they consistently lagged behind the inflationary spiral, until they became exceedingly negative. Only since 1981 has the trend been reversed and the interest rates have become positive again, even raising intermittent protests at their excessive levels.

The domestic factors blamed for the inflation push in Turkey were, as almost everywhere, public overspending on the one hand, and wage pressures on the other. The burden of security expenditure, despite NATO's share, has been a dominant factor, commanding, in overt figures, some 5 per cent of GNP and 15–16 per cent of the annual budget. Turkey's armed forces are estimated at 820,000, the largest among the NATO members.[4] The political changes, referred to in the previous chapter, the particularist concepts and interests of the vying parties and the weak coalitions of the 1970s also contributed to the inflationary distortions.[5]

The singularity of the Turkish context from the early 1930s and especially in the two recent decades lies in the socio-economic constellation, with its heavily subsidised state economic enterprises, other domestic and export subsidies, the nebulous banking and credit structure, the overvaluation of the Turkish currency, the rise and radicalisation of two rival trade unions (the later outlawed DISK and the İŞ-TÜRK), and social unrest, culminating in the military takeover.[6]

By the end of 1977, exogenous and endogenous factors combined to set in motion clear stagflationary trends. Deficits in the balance of payments, the shortage in foreign exchange and the heavy, growing burden of short-term foreign debt made real the danger of insolvency and shortages in supply of imports — raw materials, spare parts and consumer goods. These adverse external accounts concurred with large deficits in the domestic public sector,[7] falling growth rates, rising unemployment, increasing social and regional inequality,[8] and rapidly expanding double, and then even triple-digit inflation. Maladjustment between runaway inflation and officially upheld low interest rates, which spurred credit and demand, pushed prices up in a vicious circle and added to the destabilisation of the market mechanism and the economy, in the absence of a concerted comprehensive domestic economic strategy, synchronised with powerful external and international economic and financial agents and institutions, such as the OECD, EEC, IMF and the World Bank.[9] Though efforts to control the situation were made already in 1978/9, prior to the military coup,[10] they appeared to be too little and too late.

The new economic policies of 24 January 1980 signalled a radical departure from the previous interventionist and inward-oriented policies, as reflected in a number of new Demirel–Özal policy measures: devaluation of the Turkish lira,[11] increase in the prices of the SEE products, reduction and, in some cases, abolition of subsidies, increase in bank interest rates, suppression of many controls and greater encouragement of private investments and of exports.[12]

Although the prime motivation of the military coup of September 1980 was not the need to solve the burning problems of the economy except the runaway inflation, and certainly not in the short run, partly at least, in any case, the military regime was forced to face the problems and the army-sponsored constitution of 1982 reflected (in particular in Articles 161–73) the keen interest of the regime in the financial and economic issues facing the country.

Despite the radical political changes following the coup, continuity of the economic policies launched in January 1980 was preserved, still under the economic leadership of Turgut Özal, according to the 1980 stabilisation programme, with emphasis on greater attention to the market mechanism, encouragement of exports and efforts to reduce the deficits of the SEEs. In the immediate range disinflation became the major target.

It may legitimately be asked whether the stabilisation programme of January 1980 and the following, more comprehensive government programme of December 1983 were a mere continuation of steps taken already at the end of the 1970s, or the adoption of completely new strategies. A subsequent question pertains to the degree of success of these new strategies, and to what extent they have been followed up consistently and comprehensively. The first issue is dealt with next, while the second one is treated empirically in Chapter 4 and analytically in Chapter 7.

The latter part of the 1970s and even more so the 1980s (except for 1983) have been dominated by the personality of Turgut Özal and, in the Turkish context, his novel economic philosophy and empiricism. Various ingredients of his economic programme, such as better treatment of private enterprise, greater encouragement of exports and improvement of external accounts and relations, were included sporadically in the economic policies of earlier periods. However, it was Özal who presented a comprehensive economic concept and programme, especially after he assumed full power and leadership following the 1983 elections.[13]

Özal's economic philosophy was shaped not only by his personal inclination and beliefs, but also and especially by the challenge of the distortions and de-stabilisation of the economy, resulting from over-centralisation, an inefficient bureaucracy, the trial-and-error policies of frequently changing governments with biased vested interests and the natural limitations of relatively short-term actions taken by transient coalitions. In his government programme of December 1983, Özal declared: 'During the terms of various coalition governments, decisive and effective measures could not be taken when a potential crisis was predicted and whatever piecemeal measures were taken only made the problem worse.'[14]

To a non-negligible degree, exogenous forces on the international market adversely affected the domestic economy. The distortions undermining the frail socio-economic structure were reflected in a whole series of economic calamities: perpetual heavy deficits on current account and in public budgets; the ongoing depreciation of the Turkish currency; the ailing SEEs; sub-optimal efficiency of domestic production protected by inward-oriented (import-substitution) policies; putting the structure of interest rates out of balance; galloping inflation, distorting allocation of resources and income distribution; extensive and growing unemployment; and, finally, the underground and overt social and political ferment and unrest.

Özal, already in his capacity as 'economic czar' in the premilitary period and then after the coup, forged a comprehensive economic concept, later on well-defined in the government programme of December 1983. It contained certain elements adopted intermittently in the past, and mentioned above, but not placed firmly in the context of a declared economic philosophy. Its two main ingredients were free enterprise and market mechanism, occasionally substituted by an alternative terminology of a 'liberal economy'. This old Smithian–Ricardian concept was banded together with more modern monetary theories and, against the background of the Turkish singular scenario of the late 1970s and early 1980s, this led, at least in principle, to more comprehensive and concerted economic policies. These policies demonstrated a clear departure from import substitution to outward-oriented strategies, involving not only more generous export promotion and incentives, but also a whole series of complementary fundamental changes. Extensive privatisation and the gradual withdrawal of the public sector from direct entrepreneurship, as well as budget restraints, were designed to release capital funds and ease the access of the private sector to financial resources. The planned tax reform was meant to assist this process rather than induce greater income equality. The synchronisation of interest rates with inflationary trends, though mainly aimed at restraining consumption and inflation, and thus actually inflating the borrowing cost of entrepreneurs and would-be investors, was intended nevertheless to strengthen the banking sector and its potential lending and investment capacities. The limitation on rises in salaries and wages to a below-inflation level, again chiefly within the framework of disinflationary policies, was also expected to reduce input costs and make production more efficient and competitive. The floating of the domestic currency, after successive devaluations, was to bring the domestic market in line with the international market, eliminate the black market, assist exports and restrain imports, through economic rather than administrative measures. Greater freedom in foreign exchange deals, in combination with the devaluations, for both foreigners and residents, was expected to invigorate the confidence of investors, of Turkish remittances-owners, of tourists, and of foreign lenders. The danger of insolvency was to be eliminated through a partial repayment and chiefly rescheduling of pressing debts and annuities in the shorter run, as already initiated at the end of the 1970s, and through significant improvements in the balance of payments in the longer run.

The stabilisation programme and the new economic policies, of January 1980 and onward, rooted in the conceptual framework outlined above though comprehensively elaborated only in the government programme of December 1983, focused on balancing the public budget, checking money supply, disinflation and improving the foreign current account. They were designed to induce a climate of confidence and of a sustained real growth of the economy. The subsequent implementation of the programme brought to the surface certain flaws in the concept, as well as difficulties, and sometimes contradictions between targets, on the empirical level. The next chapters deal with these issues.

NOTES

1. DİE (SIS) sources; E. Alkin, *Turkey's international economic relations*, University of Istanbul, 1982, in particular p. 100.
2. IBRD, *Turkey*, 1980, p. 4.
3. Compare B. Balassa, 'Outward orientation', *Middle East Journal*, no. 31, 1983.
4. See *Türkei*, Verlagsbeilage der Süddeutschen Zeitung, Nr. 179, Donnerstag, 7 August 1986.
5. Compare Osman Okyar, 'Inflation and political democracy in Turkey, 1923–1978', *Diş Politika*, vol. 8, nos. 1–2, in particular pp. 77–8. Okyar's views in this regard seem to be supported by factual findings in most periods. Exception must be taken, however, to his statement that wage increases, in particular in the public sector, were mainly responsible for inflation in the 1970s. He relies on data on workers eligible for social insurance (with wage increases ahead of inflation), which even if exact, cannot be considered as representative of Turkish labour.
6. While in 1979 176 strikes led to 1,432,978 work days lost, in 1980 the respective figures were 220 and 4,298,413. Also 15 lockouts, which caused, in 1979, 141,848 work days lost, increased in 1980 to 21 and 653,093, respectively. Compare Merkez Bankası, 1983, Table 16. Other sources suggest a much higher figure already for 1979. Compare pp. 103 and 121 n. 38, below.
7. Inter-temporal comparisons of budget performance and deficits are hampered by a change in the fiscal year, which until 1982 started on 1 March, and since then on 1 January.
8. Wages in real terms fell by 13.74 per cent in 1979 and by over 25 per cent in 1980. Compare Tüsiad, 1983; OECD, *Economic outlook*, June 1985, p. 46.
9. Merkez Bankası, March 1985.
10. OECD, *Economic survey, Turkey*, 1980; Z.Y. Hershlag, 'Economic policies', in K.-D. Grothusen (ed.), *Türkei/Turkey*, 1985, pp. 352–3.
11. The nominal exchange rates of the Turkish lira lagged behind the purchasing power parity, despite frequent devaluations, until the mid-

1980s, when the first stage of floating rate policies put an end to the overvaluation of the currency.

12. Compare Tüsiad, *The Turkish economy 1980*, p. 35 ff.

13. *The government programme*, Ankara, 19 December 1983, *passim*.

14. Ibid., p. 5.

4

Economic Performance in the 1980s

A GENERAL REVIEW

Before embarking upon a detailed account, it may be useful to summarise the main empirical trends of the first quinquennium of the 1980s, during which there occurred many events of critical importance to the economy and its future. The major events registered during the quinquennium were the peaking of the inflation rate at the beginning and its subsequent rapid drastic fall; the military take-over, a new constitution and return to a parliamentary regime, albeit restricted by special privileges of the presidency; the pre-coup and post-coup economic stabilisation programmes; the clear shift from inward- to outward-oriented strategies; a series of financial, fiscal and monetary reforms; re-scheduling, with foreign co-operation, of the international commitments of an economy on the brink of insolvency; and the fifth five-year development plan, 1985–9, which followed the ambitious and partly disrupted fourth plan (1979–83), with its envisaged real growth rate of 8.2 per cent per annum.[1]

Certain aspects of the events listed above require closer examination; among them inflation and disinflation, domestic and external imbalances, employment, unemployment and equity, and the correlation between short-term policies and long-term strategies and planning. This examination will be made within the context of the experience of 60 years of the Republic and the critical scenario on the threshold of the 1980s, described above, and the analysis presented below of the actual performance of the main sectors of the economy since 1980.

The overall performance of the economy in the course of the

1980s showed a significant improvement in comparison with the critical years 1979–80. The year 1981 registered a clear upward trend in almost all areas. Inflation was sharply reduced; the fall in investments in 1979 and 1980 was replaced by a growth of 3.5 per cent in fixed investments; industrial output in real terms rose by 7.2 per cent, GNP by 4.2 per cent, and GNP *per capita* by 1.9 per cent (despite agriculture lagging behind). All this was brought about mainly through fuller utilisation of installed capacity. Also, exports increased much more rapidly (by 65 per cent) than imports (by 15 per cent), and workers' remittances from abroad rose to nearly $2.5 billion.[2]

Although these beneficial changes were not fully sustained in the following years, they nevertheless reflected a dramatic turnabout. GNP in constant prices shifted from a negative to a quite substantial positive growth of 4.2, 4.4, 2.9, 5.7 and 5.1 per cent in the years 1981, 1982, 1983, 1984 and 1985, respectively. Calculated at current prices and parallel current exchange rates, GDP in US dollars changed from 53.03 billion in 1982, to 51.15 billion in 1983, 49.61 billion in 1984, and (a provisional) 52.5 billion in 1985. The 'fall' in 1983 and 1984 must be attributed to the abnormal overvaluation of the dollar in those years. In *per capita* terms, real growth amounted in the years 1981–5 to 1.9, 2, 0.5, 3.5 and 2.8 per cent.[3] In terms of US dollars, GNP *per capita* was estimated at about $950 for 1984 and about $1,000 in 1985. This compares with $1,905 for Portugal, $3,380 for Greece and $4,192 for Spain.[4] In view of the radical disinflationary policies of that period, the growth indicated was, except for 1983, a non-negligible achievement (possibly in defiance of the implications of the Phillips curve, although another aspect of the Phillips 'trade-off', employment [or rather unemployment], did not fare well). This latter issue is dealt with extensively in Chapter 6.

PUBLIC FINANCES — THE FISCAL AND MONETARY SECTORS

This subject will be revisited in Chapter 6 on inflation, but it is referred to here in the overall context of economic performance.

A retrospective view shows that in the period 1937–43 the budgets were roughly balanced, in 1944 deficitary, in 1945–9 balanced again, and from the 1950s till 1962 they have been almost continuously deficitary. From 1963, they fluctuated between black and red until 1972. From 1973, the budget has been permanently unbalanced, and since 1977 the deficits have become very serious. During the period 1975–85, the consolidated budget expenditure amounted to an annual average of 24.36 per cent of GNP. Since this could not be sustained by genuine revenues alone, the treasury had to have recourse to loans from the public and banks, as well as to money printing.

The main items of budget expenditure of general government administration, security, education and debt reimbursement (including interest), in this order, have remained more or less steady in recent years. The share of general government services and administration moved from 35.8 per cent in 1983, to 32.9 per cent in 1984, and 29.8 per cent in 1985; security spending stood at 15.4, 15.3 and 15.4 per cent for the same years (apart from direct NATO expenditure and certain items included under different headings); education fell slightly from 13.1 to 12.6 and 12.5 per cent, respectively; debt reimbursement rose from 6.9 to 9.9 and 11.0 per cent, respectively. Social services were at the bottom of the list, with 0.5 to 0.6 per cent, and the rest went to various departments and sectors.

The consolidated budget[5] revenues in the years 1983, 1984 and 1985, derived from income tax were 34.2, 30.0 and 24.1 per cent; indirect taxes 30.1, 25.6 and 29.3 per cent; customs and various import taxes 9.3, 10.4 and 13.6 per cent; other revenues 18.3, 28.5 and 20.8 per cent; and, finally, domestic loans 7.7, 5.5, and 12.2 per cent, this latter item constituting a clear deficit over and above the official deficit covered by drawing on the Central Bank and money printing.[6]

Under the stabilisation programme of the early 1980s, the budgetary deficits, at least until 1984, were kept under somewhat better control than in the critical years 1979–80, and this also moderated the increase in money supply. However, both the domestic and foreign accounts, the latter still suffering from adverse terms of trade, remained well below the red line.

There is an evident positive correlation between the inflationary trends of the 1980s and the rate of increase in the consolidated government expenditure and the budgetary deficits. The latter changed from TL27.4 billion in 1978, to 88.4 billion in 1979, 164.8 billion in 1980, 117.2 billion in 1981, 151.2 billion in 1982, 298.6 billion in 1983, 944.7 billion in 1984 and 781.6 billion in 1985, all calculated before the inclusion of domestic loans from the public in the revenues.[7] With long-term domestic loans (securities and debt conversions) included in the revenues, the deficits increased from TL24 billion, to 60 billion, 159.7 billion, 96.4 billion, 143.1 billion, 220.5 billion, 474.2 billion and 506.9 billion, respectively.[8]

The deficits amounted to 3.7 per cent of GNP in 1980, 1.8 per cent in 1981, 2.8 per cent in 1982, 2.6 per cent in 1983, 5.1 per cent in 1984 and 2.8 per cent in 1985. For the whole 1975–85 period, the official deficit amounted to an average of 2.9 per cent of GNP.[9] Within the budget, the deficits fluctuated from 15.3 per cent of expenditure in 1980 to 7.7 per cent in 1981, 9.4 per cent in 1982, 11.7 per cent in 1983, 25 per cent in 1984 and 14.5 per cent in 1985. After 1981, the share of both total revenues and taxes in GNP followed a downward trend, and naturally the share of deficit took an upward turn, in common with the pre-1981 trends. The main cause for concern was the growing recourse to short-term financing.[10]

Government support of the export drive, which was increased following the adoption of the outward-oriented strategies, served to augment the perennial excessive public spending of elements such as certain public administrative services, the SEEs, and security and defence. This trend prevailed throughout 1983–5, despite the declared principal aim of curbing inflation and attaining at the same time a growth rate of 4.8 per cent. Little progress was made in attaining either target in 1983, nor was inflation appreciably contained in 1984 and even in 1985, largely because of the failure of an attempt to finance the budget from real resources of the economy and to carry out an effective reform in the tax system. Tax reductions for lower incomes at one end of the scale, and for corporate bodies at the other, were not counterbalanced by effective tax collection, and tax evasion made a mockery of revenue estimates, though some change for the better was registered in 1985.

Except for taxes on foreign trade, tax collection fell permanently below the budget estimates. The total tax burden, as a percentage of GNP, has assumed a falling trend, from an average of 18.64 per cent during the second half of the 1970s to an average of 16.1 per cent in the period 1980–85; or, in greater detail, from 18.4 per cent in 1979 to 16.9 per cent in 1980, 18.2 per cent in 1981, 17.9 per cent in 1982, 16.8 per cent in 1983, 12.9 per cent in 1984, and 13.9 per cent in 1985. The contribution of taxes to total government revenue, which fluctuated between 80 and 88 per cent in the period 1975–83, amounted to 71.5 per cent in 1984 and 83.6 per cent in 1985,[11] and to only 62.8 and 71.2 per cent of government expenditure in 1984 and 1985, respectively. This necessitated money printing, in addition to a continuous increase in domestic borrowing, which by the end of 1985 reached a cumulative figure of TL4,028 billion, as compared with TL810 billion in 1980.[12] This increase in domestic borrowing, which was effected mainly through a huge increase in securities issues, in the form of government bonds and treasury bills, thus restricting the access of the private sector to the capital market, even provided for a short-lived reduction in the official deficit in the 1981 and 1982 budgets, as compared with 1980, assisted by a certain restraint in government spending in those years. But later on, in particular in 1984, further deterioration in the budget performance resulted in expenditure increasing faster (by 34.6 per cent) than revenues (by 26.9 per cent), thus inflating the deficit. This made it necessary to increase significantly the Central Bank's advances to the Treasury (60 per cent in 1984 and 61 per cent in 1985 of the bank's total credits), over and above the borrowing from the public, as well as causing deferment in payments.[13] The deferred payments (that is, unpaid financial commitments) amounted to 1.6 per cent of GNP in 1981, 1.2 per cent in 1982, 3.3 per cent in 1983 and 5 per cent in 1984.[14]

Despite the introduction of value added tax (which, of course, increased prices in cases where it exceeded the replaced purchase tax), and the estimated contribution of 68–69 per cent from taxes to the general budget expenditure (as opposed to budget revenues), the overall tax receipts lagged behind the targeted revenues, thus leading to a higher public deficit, and this in addition to the larger capital inflows resulted in monetary expansion and inflation.[15] The initial returns for 1986 show an improvement in tax collection and in its share in revenues (about 88 per cent), but the consolidated budget is no longer the only indication of public financing, since the introduction of various special funds, to which certain revenues (for example, levies on imports and certain business activities) and spending have been channelled.[16]

The continuous budget deficits involved a more rapid increase in money supply, with certain qualifications, indicated below. In the framework of the increases in the credits extended by the Central Bank to the public sector, short-term advances to the Treasury took the lion's share, though credits to other public authorities were also significant. The Central Bank itself borrowed foreign exchange from domestic banks to finance its own requirements, instead of purchasing foreign exchange directly.

Characteristically, with the exception of a few short periods, the rate of increase of M1 (currency plus commercial and savings sight deposits), both in absolute terms and as a percentage of GNP, has been on a downward trend, while M2 (M1 plus time deposits) has been on the whole on a permanent rising trend. The positive interest rates in recent years (since 1981) have encouraged time deposits, but their short duration and time horizon have turned them into a tool in the inflationary game. While banknotes in circulation increased by relatively moderate rates (34.3 per cent in 1985), M2, still at a 29 per cent rate of increase in 1983, rose in 1984 by 57.5 per cent and in 1985 by 59 per cent. These two figures are higher than the parallel inflationary rates, which, by the way, assumed an opposite trend in 1985 — another counter-indication of the arguable correlation and sequence of inflation and money supply. The initial trends of 1986 point to a 10 per cent drop in the increase of M2.[17]

Within the framework of inflationary developments, disinflationary policies, foreign trade and current account considerations, the exchange rates have been employed extensively as a major tool of monetary and economic policy. Recently there has been a jump in the exchange rate, with the lira being devalued from TL574 per US$1 at the end of 1985 to TL664.80 by the end of March 1986. The slight fall to TL658 by the end of April 1986 reflected the weakening position of the US dollar and not the strength of the lira. This is evident from the value of the lira in terms of SDR. By the end of April 1986, 1 SDR equalled TL774, as compared with TL634 by the end of December 1985, representing a fall of 22 per cent in the value of the lira over a period of four months. Later data on half-year changes show that (with a rate of TL682 to US$1 in June 1986) devaluation in terms of the US dollar was 17.66 per cent, in terms of the Deutschmark 30.62 per cent, and in terms of the Swiss franc 34.26 per cent. A further fall was registered, in September 1986, to TL698.87 against the US dollar, and TL848.02 against the SDR.[18] Recent data for the end of 1987 show a fall to over TL1,000 per U.S. dollar.

The results of disinflationary policies (to be discussed in detail below), while very encouraging between 1981 and 1983, have suffered a setback since 1984, with a recurrent annual rise in wholesale prices of over 50 per cent.[19] This can be explained by a number of factors: the relaxation in 1983 of the previously implemented stringent measures, the adoption of a more liberal 'market forces approach' by the government, and the subsequent buoyant business conditions over most of 1984, sharp devaluations of the currency and its readjustment on a floating daily basis, cutting of subsidies and raising the prices of the SEE products to alleviate the burden on the budget.[20]

THE CASE OF THE STATE ECONOMIC ENTERPRISES

The deficits of the state economic enterprises (Kamu İktisadi Teşebbüsleri) have been among the major burdens of the public budget since the 1930s. Various reforms which attempted in the past to reduce this burden were of little avail.[21] Within the framework of the stabilisation programme the law of 20 May 1983 made a basic distinction between the profit-oriented SEEs, called state economic corporations (SECs), which were given the freedom of determining their own prices and accounts, and the public-service-oriented public economic agencies (PEAs), that is, utility companies, monopoly goods,[22] certain essential commodities and basic services. Another distinction was made between: first, 'enterprises' with 100 per cent ownership by SECs or PEAs; secondly, 'partnerships', with over 50 per cent ownership by SECs or PEAs; and thirdly, 'participations', with their 26–50 per cent ownership.

Since the end of 1983, with the onset of the institutionalised new policies of Özal, a fresh start has been attempted in the domain of the SEEs too. The emphasis has been on decentralisation of decision-making, reduction to a minimum of state involvement and intervention in management and financing, aimed at promoting self-financing of current costs, growth of the participation of the SEEs' own savings and capital in new investments, and compliance with the market mechanism instead of reliance on administrative government protection and subsidies. Moreover, political affiliation and activity of SEE personnel has been prohibited by law. An important step was taken by the Parliament on 3 June 1986, which approved the gradual privatisation of the SEEs. In fact, however, central decision-making regarding the overall functioning of the SEEs has continued, so far, to a large degree.[23]

A certain improvement in the SEE accounts has been registered since 1981, with gross profits of TL7.7 billion in 1981, and TL66.7 billion in 1982, then a loss of TL34.4 billion in 1983, and again a gross profit of TL230.3 billion in 1984 — all in current terms. As yet unconfirmed data on 1985 record a gross profit in current terms of over TL1,200 billion (of which, as indicated below, some TL735 billion are quoted as SEEs' balance resources designated for self-financing). The overall financing requirements of the SEEs for extensive investment programmes increased from TL735 billion in 1984 to TL969 billion in 1985, over and above the SEEs' own resources for that year. Although in real terms the 1985 figure was even less than that for 1984, and meanwhile also the prices of SEE products rose significantly, SEE demand for public funds and domestic and foreign borrowing has still been substantial.

Transfers from the consolidated budget to the SEEs, on the increase until 1983 in current terms, decreased in 1984 and still further in 1985. As a percentage of the budget, they fell from 12 per cent in 1981, to 2 per cent only in 1985, but it remains unclear whether additional funds were not included in such budget items as 'other transfers' or 'investments'. In this context it may be noted that the SEEs' share in total public fixed investment amounts to over 90 per cent in mining and manufacturing, 60–70 per cent in energy and transportation, and over 20 per cent in tourism, while the main activity of a wide range of other services is left to government agencies other than the SEEs.[24]

Since the 1985–9 five-year plan envisages transfers from the general budget also for its final year,[25] it is not clear what level of profitability and self-financing of investments the SEEs will reach by that year, taking account, of course, of the distinction noted above between several categories of the SEEs.

In any case, budgetary transfers to the SEEs for the sake of continued and even growing investments accounted for 29 per cent of their total requirements for financing ventures in 1984, with foreign project credits plus other domestic funds supplying 49 per cent of these requirements.[26] The balance came from the SEEs' own resources. A similar situation prevailed in 1985, with the SEEs providing 41.6 per cent from their own resources for net investments, the budget an estimated 20 per cent, foreign project credits 25.5 per cent, and price stabilisation and other funds, the balance, about 13 per cent.[27]

From their very beginning the SEEs have been a favoured target for widespread criticism, from inside and outside the country. Ideological free-marketeers and pragmatic economists focused attention on their faults, mismanagement and deficits. These shortcomings cannot be denied; hence the recurrent attempts at reform. However, inefficiency is not the exclusive domain of the SEEs; moreover, deficits in some of them (for instance, railways) are common in many DCs as well; and, on the positive side, the SEEs performed a pioneering task in preparing professional cadres also for the private sector and in promoting industrialisation in general.

The SEEs continue to play a major role in the economy. They employ 750,000 people, or about 4 per cent of total and 30 per cent of the industrial labour force. Their share in GDP and in industrial output, at the rates of 9 and 49 per cent, respectively, remained almost constant in the period 1978–83, though recently these shares have decreased to 7.8 per cent in GDP and about 40 per cent in industrial output. The reasons for this contraction are as yet uncertain. They may stem from the falling productivity of the SEEs in comparison with other sectors, or from a greater overall increase in the economic activity of other industries and services. In any case, comparison of the employment and output shares shows, somewhat surprisingly, that despite the complaints about their inefficiency, overstaffing and mismanagement, the SEEs' productive performance on total, measured by product per worker, was better than the rest of the economy as a whole and even the private urban sector. A comparison between all public sector manufacturing industries and private sector establishments with ten or more employed persons shows an almost exactly identical average productivity per earner. Moreover, if the whole industrial public sector is compared with the whole private industrial sector (including large and small manufacturing units), the productivity of the public sector turns out to be much higher.[28] Other, unfortunately incomplete and not very reliable data, such as returns on capital invested, might show a different picture. Even the notorious overstaffing of the SEEs, which lends itself to criticism on the micro level, may be considered acceptable from a macro point of view, if the private profit or loss of a firm is compared with the social profit or loss of the economy. After all, if and when disguised unemployment (in the form of overstaffing) turns into open unemployment, following dismissals and lack of alternative job opportunities, welfare, transfer funds and other socio-economic consequences are inevitably involved.[29]

THE SECTORAL PERFORMANCE

The annual growth rates of the respective sectors are given below necessarily in fixed prices, calculated according to the implicit price deflators, even though their relative shares in GNP are more realistically reflected in current prices. The latter show the combined effects of current output and prices of each sector, thus accentuating, for instance, the greater downward fluctuating trends of agricultural prices, as compared to the steadier 'inertial' inflation of the industrial prices. This trend had a moderating effect on the overall inflation in 1985.[30]

Agriculture

Throughout the whole economic history of republican Turkey, *agriculture*, despite intermittent attempts at reform, legislation and some practical measures, has remained in fact, though not in declared policies, a stepchild and a neglected sector of the economy. The main brunt of the tighter monetary, anti-inflationary policies fell upon agriculture, as reflected in inadequate support for agricultural prices, surpluses and credits, and for infrastructural investments (discounting the conspicuous ones) on which agricultural structural change and efficiency are dependent.

The state of Turkey's economy is still largely influenced by the performance of agriculture, with some 57 per cent employed in this sector (compared to 77 per cent in the early 1960s), and its non-negligible though falling share in exports.[31] Despite some improvements in agricultural technology (20 per cent more fertiliser in 1984 than in 1977 and an increase of more than 50 per cent in engine-fed machinery), yields per land unit in most crops had risen only slightly by the mid-1980s as compared with the mid-1970s, in some they had remained stagnant, and in some they had even fallen. Fluctuations and differential trends have been discernible in various sub-sectors. While poultry, fishery, meat production, tea, fruit, and some vegetables and cereals improved their performance, livestock in general, wool, certain forestry products and hazelnuts have shown a decrease.

The main problems of the agricultural sector were that imported pesticides and fertiliser did not meet the needs fully, improved seeds were short in supply, high-value export crops were inadequate in quantity and quality, and marketing arrangements were, and have remained, unsatisfactory.[32] In 1984 the share of agriculture in GNP stood at 18.4 per cent, and according to SPO at only 17.7 per cent. According to the State Institute of Statistics, agriculture's share in GNP fell from 18.9 per cent in 1984 to 17.5 per cent in 1985, and a further fall to 16.7 per cent was envisaged for 1986.[33]

Almost no marginal land was added to the cultivated areas to compensate for the stagnation or inadequate rise in land productivity. In fact, between 1977 and 1984 the area cultivated even fell, from 13.6 million hectares under cereals to 13.4 million, from 1.4 million under industrial crops to 1.3 million, and from 1.3 million under oil seeds to 1.28 million.[34]

In spite of the planned agricultural growth of 3.6 per cent *per annum* during the 1985–9 fifth five-year plan, its share in domestic product is expected to fall to 15.3 per cent by 1989.[35] While in the LDCs at large development strategies have recently reassessed and re-emphasized the focal role of agriculture, no radical change in attitudes has occurred in Turkey, if allocation of resources and actual growth lagging behind targets are to serve as any indication.

The annual growth of domestic demand for agricultural produce is estimated at 3.3 per cent for the current plan period, to satisfy the increase of population, rising living standards and agro-industrial requirements. The remaining 0.3 per cent of the 3.6 per cent planned growth in output is designated for increasing the current agricultural exports by over 9 per cent annually. Even this not entirely satisfactory target may be difficult to attain, because of the uncertainty of achieving the overall planned target of the sector, and the barriers set up by the European Community (even against associated economies), as well as by other countries, to block agricultural imports. As for the real rates of growth, while in 1984 agricultural product, in constant prices, increased by 3.5 per cent, in 1985 the rate of increase was 2.8 per cent only, which was less than the plan target. We referred above to the fluctuations of the recent ten-year period. In 1985, as compared with 1984, impressive growth was registered in such crops as soya beans, potatoes, maize, groundnuts and cherries; however, a fall in such basic crops as wheat, oats, rice and in industrial crops reduced the overall rate of growth in comparison with the preceding year and with the plan targets.[36]

Turkey's agriculture contains many still untapped potentials in such areas as forestry, livestock, inland fishing, and in the more effective utilisation of water resources for both irrigation and energy generation. So far, Turkey supplies only some 16 per cent of her oil demands, and, with the paucity of new oil findings, water power and other sources could be used to supply part of the energy requirements and reduce dependence on hard-currency imports. The increase in the use of irrigation facilities is essential not only for filling the gaps in rainfall for field and industrial crops and to minimise the effect of fluctuations, but also for more intensive and modern crop rotation, which might significantly reduce the extent of fallow lands. Even if the planned targets are achieved, and this is feasible on the basis of trends extrapolated from the past, the share of irrigated area in total arable land will not exceed 14.8 per cent. This compares with 9.3 per cent in 1977 and an estimated 11.9 per cent for 1984. The eventual success of the ambitious South-east Anatolian Project (GAP — Güneydoğu Anaddu Projesi), covering 41.6 per cent of the country's area and 25 per cent of its population, may have a far-reaching beneficial impact on Turkey's irrigation facilities, agriculture and energy supply.[37]

The planned increase in fertilisation and machinery also appears to be attainable. Here integration of rural development in overall planning is imperative, to avoid surpluses, secure markets and promote the input–output linkages with agro-industry and industry and services at large. Even if moderation of the 'push effect' of the village, by controlling or delaying the effects of the diminishing marginal returns, is counterbalanced by the 'pull effect' of the city, success in revitalising and modernising agriculture should significantly raise the production and living standards of the country's rural sector.

Apart from domestic economic and social considerations, the achievement of the targets of the agricultural sector may have an important favourable impact on external accounts, in which the sector still plays a significant role. If exports of this sector do increase in the plan period by 9.1 per cent *per annum*, and total imports fall — as envisaged — by 6.1 per cent annually, the overall trade balance could change radically, particularly in view of the high value added in foreign exchange of agricultural exports. Certainly, competitiveness in quantity, quality and prices in the international market is an underlying condition of the expected changes.[38]

Industry and mining

As in the past, industrial output and employment are assigned a major role in the strategies outlined by the 1985–9 five-year plan.[39] In the definition of industry are included manufacturing, mining, and electricity and gas.

Even though industrial employment has increased in the last 20 years by nearly 88 per cent, and its share in total employment by 50 per cent (from 8.3 per cent in total employment in 1962 to 12.7 per cent in 1985), it lagged significantly behind the growth of services in the longer run, though not in recent years, in particular in banking and commerce. On the other hand, industrial production, on the domestic as well as on the export levels, fared better than agriculture, though annually fluctuating rates of growth, which usually apply to agriculture, have been characteristic of Turkey's industry too.[40] The roots of these fluctuations lie in the specific, mixed public–private structure of the industrial sector and its heavy dependence on changing economic, financial, fiscal and banking policies. Though a slight improvement has taken place in recent years in capacity utilisation, it is still less than satisfactory, with an average rate ranging from 60 to 70 per cent. In manufacturing alone, capacity utilisation in firms covered by the Tüsiad questionnaire increased from 69.6 per cent in 1983 to 72.7 per cent in 1985. The figure for earthenware was 80.6 per cent, for textiles–clothing–leather 75.3 per cent, and the lowest were in forestry products (58.8 per cent) and in capital goods and machinery (68.6 per cent). The average capacity utilisation was calculated on the basis of returns from the firms responding to the Tüsiad questionnaire, 40 per cent of which utilised 80–100 per cent of capacity, 39 per cent 60–79 per cent, 14 per cent 40–59 per cent, and 6.4 per cent utilised 0–39 per cent of installed capacity. An interesting finding was that insufficient demand was given as the main reason (49.7 per cent in 1984 and 53.3 per cent in 1985) for under-utilisation, while financial difficulties were responsible for some 25 per cent only, and lack of raw materials for 15–17 per cent. These findings suggest a shift in policy emphasis to market research and better adjustment of production to markets.[41]

Findings of the Istanbul Chamber of Industry for all Turkish industry, in terms of weighted averages, show much lower figures for capacity utilisation, namely 61.8 per cent for the last quarter of 1985 and 62.5 per cent for the second quarter of 1986.[42]

Industrial value added increased by 6.4 per cent in 1983, by 8.8 per cent in 1984, but again by 6.6 per cent only in 1985. First estimates for 1986 suggest a 10.3 per cent growth for manufacturing and 14.4 per cent for mining and quarrying. If these estimates prove correct, the weighted average growth for all industry should exceed 11 per cent.[43] The average annual industrial growth over the first quinquennium of the 1980s was 7.4 per cent, an important achievement in view of the negative growth of −5.6 per cent in 1979 and −5.8 per cent in 1980. Industry's share in GNP increased from 30.1 per cent in 1984 to 31.6 per cent in 1985 and an estimated 33.4 per cent in 1986; its contribution to exports was US$3,658 million in 1983, that is, 65.7 per cent of all exports of goods, and its share in 1984 rose to 72.1 per cent, and in 1985 to 75 per cent. This compares with 24.5 per cent from agriculture in 1984 and 21.6 per cent in 1985. Particular progress has been registered in cotton and wool yarn, in tyres, and in some areas of textiles, while tobacco and alcoholic beverages showed a fluctuating trend.[44]

Although intermediate and capital goods have gained ground in development targets and in actual trends, the main stress is still on the food industry, both the domestic and foreign-market oriented. Here Turkey enjoys basically a substantial degree of comparative and absolute advantage, but its fuller effectiveness depends on the implementation of a series of ancillary objectives, such as marketing improvements, construction of chain-packing and cold-storage installations, upgrading of quality of the products and a number of other high-standard requirements. This line of action correlates with the tendency to intensify the link with the agricultural sector via agro-industry, as well as through emphasis on chemicals, fertiliser and agricultural machinery. The important textile sector, which also draws on agricultural raw material, is, with regard to exports, very much subject to the vicissitudes of the protectionist measures of the current and potential buyers.

The improved overall performance in manufactured value added (MVA) in the course of the 1980s, taking account of the fluctuations already indicated, stemmed from upgraded utilisation of capacity, in an environment free from strikes and lockouts (following the military takeover), a greater influx of foreign funds and, therefore, better supply of imported inputs, and more generous export incentives, which were part of the shift to outward-oriented strategies. The growth index of manufacturing based on 100 for 1980, was calculated at 111.0 for 1982, 119.2 for 1983, 135.3 for 1984 and 138.0 for 1985. The two last-mentioned indices corroborate the more slowly rising trend in industry as a whole in 1985 as compared with 1984, though figures differ from source to source.[45] In 1985, the performance of the private sector in manufacturing (Δ8.4 per cent) outdistanced that of the public sector (Δ1.3 per cent), mainly due to increases in metal industries, non-metallic mineral products, chemicals, textiles and leather. Price increases were on the whole much steeper in the public sector, but this does not accord sufficient competitiveness to the private sector in view of the still semi-monopolistic position of a substantial public part (namely the SEEs) of the industrial sector.

Turkey has been defined as 'a country rich in poor minerals'.[46] This still holds true for certain mineral products, such as crude oil, which fluctuate around 2 million tons *per annum*, but less so for hard coal (about 3.6 million tons), copper (some 130,000 tons) and iron ore (nearly 3 million tons), and certainly not for chromium (over 200,000 tons), lignite (about 22 million tons), natural gas (in still small but rapidly growing quantities), or quarrying and building materials.

The total value of minerals produced domestically, net of oil, exceeds total domestic demand; this leaves a proportion of mineral output for exports. Still, the performance of most mining industries has remained stagnant during recent years (1977–84), except for lignite and, to a certain degree, iron ore. In 1985, apart from phosphate, all mineral products were on an upward trend which may indicate a more promising future. The fifth plan forecasts indicate an even larger margin, which will be available either for local processing or for exports. The bottleneck remains in demand for oil, which exceeds domestic output even as projected for 1989 in a proportion of eight to one. In 1984 and 1985, somewhat more than 2 million tons of crude oil were produced domestically, while oil imports reached 15.6 million tons, costing US$3.3 billion, and constituting about 30 per cent of total imports.[47] It is hard to believe that in the time horizon of the fifth plan an adequate solution to this stumbling block will be found, either through alternative energy sources or new crude oil findings,[48] particularly in view of the rapidly growing consumption of electricity, from 27.3 billion kilowatts in 1983, to 30.6 billion in 1984, 34.2 billion in 1985 and an estimated 38.6 billion in 1986.

Despite the utilisation of both traditional and advanced energy sources, such as dried dung, wood, lignite, sun, geothermics, hydro-electricity and nuclear energy (still in an initial stage of development), the dependence on oil will remain for the foreseeable future at the rate of about 50 per cent of total energy requirements.[49] Of course, the fluctuations in the world oil prices are of major importance for Turkey's foreign accounts and for the economy as a whole.

The planned 7.5 per cent average annual industrial growth (including mining and power generation) until 1989, should raise industry's share in GNP to 33.7 per cent. While the trends of the 1980s confirm the feasibility of this target, the forecast must be qualified by a number of factors. In addition to the seasonal crop and price fluctuations in the national product, industry itself is faced with complex challenges of efficiency, capacity utilisation, costs, demand on the domestic and foreign markets, supply of foreign exchange and imported inputs, all of which influence production and competitiveness.

Services, including construction

In fact, throughout all the five-year plans, since the early 1960s, both agricultural and industrial growth, if intermittent annual fluctuations are disregarded, fell short of the targets set, and until the late 1970s it was only in *services* that growth exceeded the targets, and thus contributed to narrowing the gap between the overall targets and their implementation in total growth of GNP. At the same time, some of the services undoubtedly contain inflationary elements and disguised urban unemployment, thus eroding their contribution to real growth.[50]

This qualification does not apply, of course, to the whole wide range of services. Apart from the global tendency (in modern and modernising economies) of services acquiring a dominant position in both employment and contribution to GNP, the specific urbanisation process in Turkey inflated the share of services, at the expense of agriculture and industry, though in the case of industry the reason was its still inadequate absorption capacity. This, in particular, in view of the entrepreneurs' preference for capital-intensive ventures, because of their (micro) productivity, and, no less, the belief that less trouble would be caused by machinery than by labour.[51] In 1984, the total services sector contributed, at current prices, 51 per cent, and in 1985 50.9 per cent to GNP.[52] (As will be seen from Table 4.2, the figures at constant (1968) prices are somewhat higher in both years.)

The complexity of services in Turkey arises from their rather backward structure, with overemployment (that is, disguised unemployment) in the bureaucratic public sector, low-level personal services and the extensive security sector, which is understandable in view of the prevailing internal and external conditions. Though all these sectors are in principle indispensable and render vital services, their extent and efficiency leave much to be desired and some of them place a heavy burden on the public purse and the economy as a whole. The ultra-modern services of the super-industrial economies, where the ever more sophisticated electronic chip is gradually replacing physical and even mental activities, with an extremely high degree of efficiency and profitability, have not yet become a dominant sector of the Turkish economy.

On the other hand, the significant role of a number of services does constitute an important constructive element in the country's economy. The chief members of this group are commerce, banking, transportation and communications, and domestic and international tourism. The last mentioned is dealt with more extensively in Chapter 5.

It is interesting to note that neither commerce, wholesale and retail, which is relatively the largest contributor, with 29 per cent, in the output of the service sector and about 17 per cent in GNP,[53] nor the financial institutions play a major role in the development plan. This may be explained by the more indicative character of present planning, which concentrates on direct state (and not private) activity. However, in view of the macro character of planning and of the still formidable stake of the state in banking and even in commerce, this is not entirely justified.

As in certain other countries, in the area of transportation a degree of priority is being accorded to the railway system, which is expected to grow more rapidly than Turkey's network of highways. As a matter of fact, the mileage of highways has not changed since 1977, while the number of vehicles has increased by 60 per cent (motor cycles by 150 per cent), thus contributing to a rise in road accidents by 10 per cent. The mileage of railway tracks has remained static so far, but the shift from steam and even diesel locomotives to an electrified system which is planned to grow rapidly has already begun. This is an important change, in view of the size of the country and its function as a vital transit area for transportation of goods. The development thrust in land transportation has been supplemented by an increase in cabotage and international sea traffic by 50 per cent since the mid-1970s, as well as by an increase in the number of vessels and a doubling of their gross tonnage. Rather strangely, a fall in transportation has been registered in air traffic.[54]

The construction sectors sometimes get lost, statistically, between the so-called productive branches and services, but their 4–5 per cent in total employment and product, frequently included in Turkish statistics in the services sector, certainly makes an essential contribution to the overall economic performance. Quite often the construction sector reflects and even leads the general trend of national economies in general. Its linkages with other sectors are substantial, in such areas as the output of construction materials, transportation, equipment and other ancillary branches. Unfortunately, the ongoing recession in the construction sector in recent years, at least until 1985, has prevented the favourable outcomes of these linkages from reaching the rest of the economy and has created serious housing shortages and other infrastructural problems. Here, as elsewhere in Turkey's economy, technology and efficiency fall short of Western achievements.

Within the construction sector housing constitutes one of the main components, along with the transportation and communication facilities. The sector as a whole is frequently a leading factor in economic upsurge, or, conversely, in stagnation, but in the case of Turkey it assumes an even greater role in face of the massive population growth and the ongoing process of urbanisation. In addition, in periods of economic, financial and monetary uncertainty it served as a refuge for savings and other disposable funds. Thus in the years 1978–80, private investment in housing amounted to 5.26, 6.11 and 4.21 per cent of GNP, respectively, though later, in 1981–5, its share fell to an average of about 2.2 per cent only. A major step to support the construction sector was taken by the Özal government through the setting up of the Toplu Konat Fonu (Common Settlement Fund) in 1984. Though the full impact of its activity is still to be felt, a certain change for the better was already apparent in the course of 1985, and even more so in 1986, as reflected partly in actual performance and, in particular, in construction licences, in spite of rising construction costs (over and above the average wholesale price index).[55]

All this does not mean that the performance of services is not economically competitive. The relatively low costs, in particular of labour, even when juxtaposed against low productivity, result in a comparatively low cost of the 'unit' of service (which, by the way, may also be true for industry). It cannot be stated *ex ante* that substantially increased productivity under modern technology and management will necessarily set off the also substantially increased cost of capital (equipment, interest, etc.) and of high-technology labour. This, however, relates to the sensitive issue of capital- versus labour-intensity, which will be dealt with below.

ECONOMIC PERFORMANCE AND LIVING STANDARDS

To sum up our discussion of the main economic sectors, it is clear that their uneven growth gave rise to an uneven growth of GNP as well. Relatively smaller changes were registered in services (except for the notoriously bad years of 1979 and 1980, which, by the way, are also most difficult to measure) and the ups and downs in agriculture and industry have been the decisive causes of the fluctuations in the national product, as can be seen from Table 4.1.[56]

More recent but still tentative estimates for 1985 give a reduced rate of growth of GNP of 3.9 per cent, compounded from growth rates of 2.6 per cent for agriculture, 4.7 per cent for industry and 2.5 per cent for services including construction.[57]

Table 4.1: Sectoral and GNP growth, 1978–85, in percentages at factor costs in 1968 prices

	1978	*1979*	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*
Agriculture	2.7	2.8	1.7	0.1	6.4	−0.1	3.5	2.8
Industry	6.6	−5.6	−5.8	9.1	6.3	6.4	8.8	6.6
Construction	4.2	4.2	0.8	0.4	0.5	0.6	2.0	2.9
Services	4.1	−0.6	−1.0	4.2	4.3	4.1	5.6	4.9
GNP	2.9	−0.4	−1.1	4.2	4.4	2.9	5.7	5.1

Source: DİE (SIS), *15 Ağustos 1985 İlk Geçiçi Tahmin; 1985 Yılı Tahmin.*

While fluctuations in agriculture were mainly affected by weather and crop conditions, and to a lesser, though still non-negligible, degree by the domestic and foreign markets, industrial setbacks in 1979 and 1980 resulted from the deep stagflation and overall instability in the country. Within industry, the rapid strides made by manufacturing during the 1980s are expressed in the national product. Though the service sector as a whole is the biggest contributor to the national product, its contribution has been partly set off by its rate of growth lagging behind that of industry in certain years. As may be seen from Table 4.2, all in all, industry's share in GNP increased in the 1980s and that of agriculture receded, while the share of services receded only in 1985. It is interesting to note that in constant (1968) prices, agriculture's share in national product fell in 1985 to only 22.1 per cent, while industry's share rose to only 24.5 per cent. This indicates the unfavourable trend in agricultural prices in comparison with industrial prices.

The impact of the changes in the economic performance on income distribution will be dealt with below. Here we shall confine ourselves to noting some data pertaining to the average

Table 4.2: Changes in the sectoral shares in GNP, 1970–85, in percentages (in 1968 factor prices)

Year	*Agriculture*	*Industry*	*Services*
1965	34.1	17.8	48.1
1970	28.5	20.2	51.3
1975	24.8	22.3	52.9
1980	24.1	21.8	54.1
1985	22.1	24.5	53.4

Source: Maliye ve Gümrük Bakanlığı, *1985 Yıllık Ekonomik Rapor*, 1986, p. 4.

socio-economic standards as related to a few other comparable economies.

The *per capita* product in US dollars, in comparative terms, has already been referred to above. Certain additional indicators may shed more light on the subject. Public expenditure on education reached 2.8 per cent of GNP in the early 1980s, as compared with about 5 per cent in other similar economies (for example, 4.6 per cent in Portugal). Annual energy consumption *per capita* (in tons equivalents) was 0.78 (following a 100 per cent increase of total energy consumption since 1976), while in Portugal it was 1.25, in Greece 1.77, and in Spain 1.91 (the respective figures for the United States and Canada are 7.59 and 8.91). A very impressive advance was made in the proportion of electrified villages, which increased from 20.6 per cent of all villages in 1977, to 76.5 per cent in 1985 and an estimated 89 per cent in 1986 (an estimate to be taken *cum grano salis*). On the other hand, the number of telephones per 1,000 inhabitants reached 64, as against 173 in Portugal, 355 in Greece and 360 in Spain (and 800 to 900 in the United States, Switzerland and Sweden).[58]

The educational system grew substantially between 1969/70 and 1983/4 (according to the latest data available), despite the relatively low rate of public expenditure on education. The number of schools, teachers and pupils rose by about one-third, and a 50–100 per cent increase was registered in junior high schools, lyceums, vocational schools, and various other technical and academic institutions. Unfortunately, this impressive growth was not reflected in the number of graduates which remained steady in all institutions of learning, except the universities and religious Muslim senior high schools (the latter being a phenomenon of the current fundamentalist trend). This reflects, of course, a continuing high percentage of drop-outs at most levels. What did increase substantially was the number of students in institutions of higher education abroad, from 11,720 in 1977 to 47,206 in 1984. Some of these students contribute to the overall brain-drain, providing little benefit to the Turkish society and economy.

Despite the significant advance in schooling and education, the majority of youth between the ages of 12 and 18 remains outside any educational framework. Out of 6.2 million youngsters, some 2.5 million enjoy some high-school and college education. The rest get a certain amount of 'on the job' training or are unemployed.[59]

The rate of literacy, which increased greatly between 1960 (38 per cent) and 1970 (56 per cent) continued to rise thereafter, albeit at a slower pace till 1983, and reached a fairly satisfactory level (62 per cent), which makes overall education and training more effective.[60]

As late as 1984, public fixed investment in education amounted to 3.3 per cent of total public investment, and in 1985 3.25 per cent. Since private fixed investment in this sector was negligible, the share of education in total (public plus private) fixed capital investment reached some 2 per cent only.[61]

The long-term development trend in the economy, despite setbacks and fluctuations, also contributed to a gradual improvement in the area of public health. Here the change has not been uniform. While the number of hospitals, beds and outpatient institutions increased by about 25–30 per cent between 1977 and 1984, the number of health centres fell by 50 per cent, only some of them being substituted by outpatient institutions. The population rate per physician improved in that period from 1,760 to 1,450, but still lagged far behind the lowest rate for Europe (597). Apart from this, the more outlying and poorer regions fare much worse than the big urban centres. Fixed investment in health in recent years, with 0.86 per cent of the total in 1984 and 0.74 per cent in 1985, fell behind even that in education.[62]

At the same time, two 'social diseases' of modern society made inroads into the Turkish society too, namely, an increase in the divorce rate (not uncommon in the Muslim environment), in particular since 1982, and suicides, mainly in the age range 15–24.[63] Economic causes seem to play a minor role in these phenomena, but more detailed findings and closer studies are lacking.

A major flaw in the present and programmed investment strategies, which concentrate to a large degree on physical infrastructure, is an inadequate recognition of the priority of investment in human resources in the process of economic and social development.[64]

NOTES

1. Compare World Bank, *Turkey, policies and prospects for growth*, Washington, DC, March 1980, pp. iii–viii.

2. See M. Hiç, *Recent developments in the Turkish economy*, mimeograph, n.d.: DİE, *İstatistik Yıllığı*, 1985, pp. 332, 368, and *Türkiye İstatistik Cep Yıllığı*, pp. 250 ff.

3. Merkez Bankası, 1983, p. 17; İş Bankası, *Economic indicators of Turkey 1980–1984*, p. 5; Tüsiad, 1985, p. 1, and 1986, p. iv; DİE (SIS) 1984 and 1985 estimates; *OECD Observer*, No. 139, Paris, April 1986. Sources differ in their estimates of real growth. For instance, the İş Bank reported a fall in GNP *per capita* not only for 1979 and 1980 (as agreed by all sources) but also for 1981, contrary to the officially registered increase of 1.9 per cent. Compare İş Bankası, *Review of economic conditions, 1982/3*. The findings for the year 1985 show that the worse performance in 1983 and the better performance in 1984 were followed by a slower but still substantial real growth in 1985 (even though it was somewhat reduced by later estimates). The proposition of a negative correlation between growth and inflation discussed in Chapter 6 still remains valid.

4. Official Turkish figures are somewhat higher. They suggest a *per capita* income of US$1,013.7 for 1984 and US$1,064.4 for 1985. Our own calculations were derived by converting data in Turkish liras, supplied by the Merkez Bankası, DPT and other sources, into US dollars at the respective prevailing rates. See, *inter alia*, DİE, *The third preliminary estimation of GNP for 1985*, 31 March 1986. The data published recently by OECD, and indicated in the text, also confirm our estimates. See OECD, *Main economic indicators*, November 1986.

5. The consolidated budget consists of the general budget plus annexed budgets minus subsidies.

6. Maliye ve Gümrük Bakanlığı, *1987 Mali Yılı Bütçe Gerekçesi*, in particular Table 2.

7. Compare DİE, 1984, pp. 255–6, and *İstatistik Yıllığı*, 1985, p. 413 and *passim*.

8. Maliye ve Gümrük Bakanlığı, Table 11.

9. Tüsiad, 1985, pp. 27–9, and Tüsiad, 1986, pp. v ff. See also sources in note 11.

10. Maliye ve Gümrük Bakanlığı, p. 49.

11. Central Bank of Turkey, *Annual report 1985*; Maliye ve Gümrük Bakanlığı, *1985 Yıllık Ekonomik Rapor*, pp. 70–73, and *1987 Mali Yılı Bütçe Gerekçesi*, Table 11 and *passim*.

12. Maliye ve Gümrük Bakanlığı, 1985, *passim*.

13. İş Bankası, 1984/11.

14. Merkez Bankası, *The Republic of Turkey*, 1985, p. 12.

15. OECD, *Economic outlook*, June 1985, pp. 124–5.

16. At the time of this writing, no accounts of these funds have been published. Compare İş Bankası, 1984/IV; Tüsiad, 1986, p. v.

17. Merkez Bankası, *Report 1983*, p. 18; Tüsiad, 1986, pp. vii, 51 ff.

18. IMF, *IFC*, vol. XXXIX, no. 11, November 1986.

19. Merkez Bankası, March 1985; SIS, *Monthly Bulletin*, April 1985.

20. İş Bankası, April 1984.

21. Such was, for instance, Law No. 3460 of 17 June 1938, aimed at the reorganisation of the SEEs, through tightening government control and improving efficiency, competitiveness and commercial principles

of management. The Second World War curtailed these efforts, and the even greater government controls imposed by war conditions were not necessarily conducive to improving efficiency. Compare Law No. 3460, published in *Resmi Gazete*, no. 3950, 4 July 1938, and Law No. 3780 of 24 January 1940, published in *Resmi Gazete*, no. 4417, 26 January 1940.

22. Officially only one state monopoly remained, namely TEKEL (alcohol and tobacco), but apart from utilities a whole range of exclusive suppliers has survived, for example, in sugar, tea, petrochemicals or hard coal.

23. Tüsiad, 1985, p. 11 and *passim*.

24. Merkez Bankası, 1985, p. 11; Tüsiad, 1985, pp. 32 and 163, and Tüsiad, 1986, p. v and *passim*. On November 1984 exemptions were applied to the SEEs on income tax, stamp duty, and banking and insurance tax.

25. DPT (SPO), *The fifth five-year plan, 1985–9*, p. 31.

26. Tüsiad, 1985, p. 31, quoting SPO sources.

27. Maliye ve Gümrük Bakanlığı, *1985 Yıllık Ekonomik Rapor*, 1986, p. 87.

28. This result is obtained by dividing value added in manufacturing by the number of persons engaged in both the public and private sectors. Compare *İstatistik Yıllığı 1985*, pp. 256–7 and *passim*.

29. Compare Hershlag, 'Economic policies', in K.-D. Grothusen (ed.), *Türkei/Turkey*, 1985, pp. 357–8.

30. Tüsiad, 1986, pp. 2–5.

31. İş Bankası, *Review of economic conditions, 1982/3*; OECD, *Economic outlook*, 32, Paris, December 1982, especially p. 115.

32. World Bank, *Turkey*, 1980, p. xviii; *İstatistik Yıllığı, 1985*, pp. 210 ff.

33. DPT (SPO), *The fifth plan, 1985–9*, p. 3; Tüsiad, 1984, p. 23; DİE, *Haber Bülteni*, 9 August 1986.

34. DİE, 1984, pp. 95–7; İstatistik Yıllığı (1985).

35. DPT, *The fifth plan, 1985–9*, p. 3.

36. Compare DİE, *Aylık Ekonomik Göstergeler*, April 1986; Tüsiad, 1986, pp. iv and 1.

37. DPT, *The fifth plan, 1985–9*, Table 35. For the South-east Anatolian Project (Güneydoğu Anadolu Projesi or GAP) see Decree of Priority Areas, 3 July 1981, no. 8/3338 and Postscript, below.

38. DPT, *The fifth plan, 1985–9*, Table 31 and *passim*.

39. DPT, *Türkiye İstatistik Cep Yıllığı*, pp. 36–7 and *passim*.

40. In the notoriously bad years of 1979 and 1980, industry registered a clearly negative growth, and only from 1981 did it resume a positive, though still fluctuating growth. Compare Istanbul Sanayi Odası, *1984 Yılında*, Nisan — 1985, pp. 17–23; Tüsiad, 1985, p. 5.

41. Tüsiad, 1986, p. 39.

42. Istanbul Sanayi Odası, *1986 Yılı İlk Yarısında Türkiye Ekonomisi*, 1986, p. 103.

43. Ibid., p. 101.

44. İş Bankası, 1984/11; DİE, 1984, p. 210; Merkez Bankası, 1983, p. 20; *İstatistik Yıllığı*, 1985, p. 273.

45. DİE, *Aylık Ekonomik Göstergeler*, April 1986; Hershlag, 'Economic policies', in Grothusen, 1985, p. 355; OECD, *Main economic indicators*, November 1986.

46. See Hershlag, *Turkey, the challenge of growth*, 1968, p. 172.

47. DPT, *Fifth five-year plan, 1985–9*, Tables 36–9; *İstatistik Yıllığı*, 1985, pp. 233, 270 and *passim*.

48. Crude oil imports constitute some 94 per cent of all mining products imported. The brunt of this burden falls on the balance of payments.

49. Compare Maliye ve Gümrük Bakanlığı, *1985 Yıllık Ekonomik Rapor*, p. 34.

50. DPT (SPO), *The fourth five-year plan*, and T. Çubukçu, *Enflasyon Teorisi ve Türkiye'de Enflasyon*, 1984, p. 116.

51. Compare World Bank, *Turkey*, 1980, p. xxiii.

52. DPT, *Fifth plan, 1985–9*, p. 3; Tüsiad, 1986, p. 5.

53. *İstatistik Yıllığı*, 1985, pp. 435–6.

54. *İstatistik Yıllığı*, 1985, pp. 299–321.

55. Tüsiad, 1985, p. v, and Tüsiad, 1986, pp. 15–16.

56. The figures in this table differ in magnitude, though not in trend, from those in the cumulative table on p. 154 because of the different basis used for calculating constant prices. Also GNP (as opposed to GDP) is a weighted average of the three sectors listed above plus the net income from abroad.

57. Maliye ve Gümrük Bakanlığı, p. 3.

58. *OECD Observer*, No. 139, Paris, March 1986; *İstatistik Yıllığı*, 1985, p. 245 and *passim*.

59. *Z + E*, September 1986, p. 33.

60. OECD, *1985 report*, November 1985, p. 270.

61. *İstatistik Yıllığı*, 1985, pp. 127 ff.; Tüsiad, 1986, p. 14.

62. *İstatistik Yıllığı*, 1985, p. 118; Tüsiad, 1986, p. 14.

63. *İstatistik Yıllığı*, 1985, pp. 81–98.

64. An interesting discussion related to the issue of human capital, in particular in an era of modernisation and innovative technology, can be found in Assar Lindbeck's paper 'Public finance for market-oriented developing countries', IIES, University of Stockholm, April 1986, *passim*.

5

The International Sector

INTRODUCTION

Within the framework of the resources equation, an influx of foreign funds is essential to complement the inadequate domestic savings and investments and to make up for the deficits on current account, resulting from the excess of visible plus invisible imports over exports and the requirements of foreign debt annuities.

Even though the share of exports of industrial goods has been growing steadily and more rapidly than that of agricultural exports, which are more vulnerable to fluctuations in both supply and prices, the performance on the international market has been far from satisfactory. While the export volumes have been increasing in value in terms of export/output ratios (with a 3.5-fold rise in exports between 1979 and 1985 against a 2.2-fold rise in imports),[1] and the terms of trade, too, improved slightly by the mid-1980s, neither will be able to sustain a long-term change for the better, if the structure of the economy, the efficiency standards and competitiveness do not improve significantly. Also the exogenous factors, referred to below, will have an effect on international prices and protectionist policies in importing markets.

Although Turkey's share in international trade is still small, the importance of her foreign trade in the economy is constantly growing. While her share in international exports rose from 0.18 per cent in 1975 to 0.43 per cent in 1985, the percentage of exports in Turkey's GDP increased from 4 per cent in the period 1974–9 to 14.3 per cent in 1984 and to nearly 15 per cent in 1985. Turkey's share in world imports has always been higher than that of her exports, fluctuating around 0.57–0.59 per cent. The percentage of imports in GDP more than doubled from the annual average of 1974–9, and reached nearly 22 per cent in 1984 and 1985. The overall share of foreign trade in GDP rose substantially, from about 15 per cent during the 1970s to over 36 per cent in 1984 and 1985.[2]

A recent study on the market-power indices of 101 countries, by Branson and Katseli, based on mid-1970s data, placed Turkey among the countries with nearly the lowest market-power for imports (0.0037 as compared with the highest for Japan: 0.1104), and among the low, though not lowest, group for exports, with 0.0278 as against the highest of 0.5500 for Togo and 0.3770 for Saudi Arabia, due to their concentration on export goods with a very high share on the international market.[3] The ongoing transformation of the structure of Turkey's exports may change the figures in the course of time, but the extent and direction of the changes are uncertain.

Between 1974 and 1984 a substantial rise occurred in the import costs of industrial and intermediate goods, magnified by the sky-rocketing of oil prices in 1973/4 and 1978, with a slower but still serious rise in the costs of other raw materials. Characteristically, raw materials, including oil, constitute about two-thirds of Turkey's total import of goods. In the decade 1974–83 this very soon adversely affected the terms of trade, with a somewhat delayed impact on domestic costs, prices and inflation. On the one hand, Turkey was bound to use up her meagre foreign exchange reserves and resort to a growingly expensive international money market. On the other hand, her Cyprus policies, the secular Greek–Turkish animosity, and the internal regime with its international political and economic repercussions, which went to reinstitute her image as 'the sick man on the Bosphorus', impeded her access to international financial institutions and resources.

Foreign exchange shortages caused bottlenecks in the supply of producer goods, spare parts and consumer goods, a fall in the rates of growth of industrial production and of the national product as a whole, and served to aggravate inflation. The stubborn policy of overvaluation of the Turkish currency (with the exception of the sharp, and controversial, devaluation of 1970, and the more recent ones) rendered a disservice to industrial and, even more so, to agricultural exports. The import-substitution-oriented policies of the period up to the turn of the present decade, *inter alia*, through negative interest rates, did little to encourage exports.[4]

The impact of exchange rates, duties and import policies has been mixed. If the import regime is relaxed, it helps the inflow of imported inputs, investments, industrial output and growth; it depresses domestic prices, checks inflation and makes foreign markets more profitable for exports. On the other hand, freer imports pose a challenge to domestic production, require high, not easily attainable competitiveness, and exert pressure on limited foreign exchange resources. If, however, fiscal methods via duties render prices of freer imports higher, in addition to inflated prices of raw materials and industrial imports from abroad, the higher import costs, while benefiting the treasury, may contribute to domestic inflationary factors.

What complicates the issue is the effect of recently continuous and substantial devaluations already referred to, which, while helping exports, increase import costs and have a cost-push impact, that may outweigh the benefits of devaluation.[5] The regime of exchange rates, which since 1 May 1981 are adjusted on a daily basis, was reinforced at the beginning of 1984 by a freer floating rate policy, with the Central Bank in charge of fixing the rates daily, but allowing the banks a flexibility of 6–8 per cent around those rates. The subsequent continuous devaluation[6] brought the value of the local currency to TL280.0 to one US dollar by the end of 1983, to TL444.3 by the end of 1984, TL574 by the end of 1985, to nearly TL700 by September 1986, and over TL1,000 by the end of 1987 (see also p. 51).

TRADE BALANCES

In the face of frustration with import-substitution strategies, which did not in fact lead to the anticipated equilibrium in foreign accounts, a sharp turn was made towards outward-oriented policies.

The export drive of the early 1980s, chiefly based on increased export volumes and subsidies to compensate for the adverse terms of trade, resulted (following the peak trade deficit of US$4.6 billion — in some sources 5 billion — in 1980) in increased export earnings in 1981 and 1982. While imports rose by 12.8 per cent in 1981 and by 5.75 per cent in 1982 (according to some sources there was even a fall in imports in 1982), exports grew much faster, by 54 and 34 per cent, respectively (again, sources are agreed on the trend though not on the detailed figures).[7] Consequently, foreign trade accounts improved in those years. In 1983, exports fell off slightly and this, together with the rise in imports, resulted in a 15.2 per cent increase in the trade deficit.[8] A change for the better was registered in 1984 and 1985. In those years exports rose by 24 and 12 per cent, respectively, while imports increased by 16.4 and 5.6 per cent. The trade deficit moved on an average downward trend: from US$5,005 million in 1980, to $4,230 million in 1981, $3,623 million in 1984, and $3,096 million in 1985.[9] A recent revision in calculating the foreign trade accounts suggests somewhat lower figures for the whole period, as can be seen in Table 5.2.

Table 5.1: Structure of exports and imports by main commodity groups, 1970–85 (in percentages of total)

Exports	*1970*	*1975*	*1980*	*1984*	*1985*
Agriculture and livestock	75.2	56.6	57.4	24.5	21.6
Mining and quarrying	7.7	7.5	6.6	3.4	3.1
Industry	17.1	35.9	36.0	72.1	75.3
Agricultural processed products				11.3	8.1
Petroleum products				5.7	4.7
Textiles				26.3	22.5
Other industrial products				28.8	40.0
Imports	*1970*	*1975*	*1980*	*1984*	*1985*
Investment goods	47.1	41.4	20.0	24.7	25.4
Construction goods				2.3	2.0
Machinery and equipment				22.4	23.4
Raw materials	48.0	54.3	77.8	70.9	68.9
(percentage of crude oil in raw materials)				(44.2	42.5)
(percentage of crude oil in total imports)				(31.3	29.3)
Consumer goods	4.9	4.3	2.2	4.4	5.7

Source: DİE, 1985; Maliye ve Gümrük Bakanlığı, *1985 Yıllık Ekonomik Rapor*, 1986, *passim*; Istanbul Sanayi Odası, *1985 İhracat Anketi Sonuçları*, Yayın No: 1985/7, Mayıs–1985, p. 27.

For the first time in Turkey's economic history industrial exports in the 1980s exceeded agricultural exports. In 1950, agricultural exports led with 93 per cent of the total, in 1960 with 85 per cent, and in 1970 with 75 per cent. In 1980 they fell further to 57 per cent, and to 21.6 per cent in 1985. Since 1982 industry has taken the lead and its share reached as much as 72 per cent in 1984 and 75 per cent in 1985. The latter figures, though showing the increasing preponderance of industrial exports, must be qualified by the contribution of agriculture-based manufactures, to the extent of 8 per cent in total exports.

The rise in exports in 1984 and 1985, accompanied by a smaller increase in imports, led to an improvement in the share of exports in imports, from 62 per cent in 1983, to 66 per cent in 1984 and 70 per cent in 1985. (A further increase in this share, to 80 per cent in 1987, was reported by Mr Özal in his programme presented to the parliament on December 25 1987.)

On the whole, the 1980s, in the course of which a shift occurred from import substitution to export-oriented strategies, showed a definite increase in the share of exports in imports in comparison with the 1970s. In both periods the rates fluctuated, but while in the second half of the 1970s they moved between 30 and 49 per cent, the range in the 1980s was between 52 and 70 per cent. In recent years, a rise in manufactured and other

Table 5.2: The balance of trade, current account and terms of trade, 1970–85

Year	*Balance of trade*	*Balance on current account*	*Terms of trade*
	(in millions of US$)		(1973 = 100)
1970	− 242	− 44	95
1971	− 353	+ 43	100
1972	− 482	+ 212	102
1973	− 509	+ 660	100
1974	−2,057	− 561	79.2
1975	−3,101	−1,648	77.7
1976	−2,912	−2,029	79.8
1977	−3,753	−3,138	79.4
1978	−2,081	−1,266	73.8
1979	−2,554	−1,413	73.7
1980	−4,603	−3,409	56.9
1981	−3,864	−1,916	52.1
1982	−2,628	− 935	49.7
1983	−2,990	−1,898	48.8
1984	−2,942	−1,407	55.3
1985	−2,975	−1,013	59.6[a]

Note: [a] The terms of trade for 1985 were calculated by deriving changes in the unit values of exports and imports from recently published returns for export and import quantities and values for 1985.
Sources: IMF, *IFS 1986 yearbook* and official Turkish publications (DİE, Merkez Bankası, other government agencies). Recent data were derived from *DİE, Aylık İstatistik Bülteni*, 1986, xi–xii.

processed exports (up to 75 per cent in total export revenues) — particularly in textiles and partly in food, animals, and meat and fish processed goods — contributed to the improved performance. A slight, perhaps temporary, fall in imports of crude oil and an increase in imports of machinery were registered. It is also noteworthy that since 1983 a certain change for the better has taken place in Turkey's terms of trade, which had constantly deteriorated from the mid-1970s, to a low of less than 50 in 1982 and 1983. In 1984 a certain improvement to 55.3 was registered. Here, undoubtedly, both the fall in oil prices and the structural change of exports influenced the trend. Further improvement continued to 59.6 in 1985 (see Table 5.2).

The whole period of 1979–85 is characterised by an increase of exports, from US$2.3 billion at its beginning to US$8.3 billion at its end, while imports rose from US$5.1 billion to US$11.2 billion. Therefore, while exports grew much more rapidly, the absolute trade deficit was almost exactly the same, about $3 billion, at the end of the period as at the beginning, with even higher figures in the intervening years. The authorities consider this 'stabilisation' of the deficit as an achievement, since it makes the deficit on current account (about US$1 billion) bearable.

The returns for the first six months of 1986, however, show a rise in the trade deficit (US$1,885 million) as compared with the same period in 1985 (US$1,379 million). The rise resulted from an increase in imports (by 5.6 per cent), as well as a fall in exports (by 2 per cent). As indicated below, this also contributed largely to the deterioration in the current account.

THE CURRENT ACCOUNT

The deficit on current account, still at about US$2 billion in 1981, largely due to the continued deterioration in terms of trade (see Table 5.2), was reduced to 935 million in 1982. Though it later rose again to the level of US$1,898 million in 1983, requiring recourse to short-term and IMF loans,[10] since 1984, with a deficit of US$1,407 million, and in particular in 1985, with a deficit of US$1,013 million, a clear downward trend has been assumed. This resulted, for instance in 1985, from a smaller rise in imports (5.6 per cent) than in exports (12 per cent), leading to a smaller trade and current account deficit.

The fall in the current account deficit occurred, it may be noted, despite a setback in the influx of remittances, which fell from US$1.88 billion in 1984 to 1.77 billion in 1985. The favourable effect of a lesser foreign burden was, however, counterbalanced by a reduction in total available resources, with adverse repercussions on investment and growth in 1985. Also, unfortunately, the early months of 1986 showed a serious falling trend in remittances, largely due to the instability of the exchange rates and expectations of still further devaluations, the difference in profitability of savings and investments abroad and the greater confidence in foreign currency and the general atmosphere of 'waiting for better times' in Turkey. Serious reservations are in place regarding the detailed figures (and not only in this area of activity and accounts), because of such unknowns as smuggling, black markets, different forms of transferring remittances, etc., which may not change the trend but do influence the particular figures.[11]

Among the invisibles, tourism, one of the greatest potential earners of foreign exchange in Turkey, has not yet become a focus of implemented policies, although it has been defined intermittently as a major development target. Its share in fixed capital investment has fallen consistently below 1 per cent of the total. The net balances of foreign travel (revenues minus expenditure) have fluctuated between US$200 and 300 million, that is, some 10 per cent of all invisibles, or 3–4 per cent of total exports (goods plus invisibles).[12] In 1984, the performance of this sector even deteriorated, with a fall in net tourism incomes from $292 million in 1983 to $271 million in 1984. While gross receipts in 1984 increased by 33.3 per cent, gross expenditure on Turkish tourism going abroad increased by 117.5 per cent.[13] This came on the heels of relaxation of restrictions on travel abroad and on allocating foreign exchange. SPO (DPT) sources submit a somewhat better figure for 1984, providing an estimated income from net tourism of $310 million. Returns of net tourism revenues of $770 million for 1985, according to old methods of calculation and of $1,150 million according to new ones, sound somewhat optimistic and, in any case, they are partly explained by the inclusion of certain items missing from data on previous years, though the upward trend is still encouraging. Nevertheless, tourism receipts in 1985, on a net basis, constituted only 1.2 per cent of GNP,[14] or about 2 per cent according to the higher estimates.

In 1986, two events adversely affected incoming tourism, namely, the Chernobyl accident and the rising waves of terrorism. The final results are not yet known, but the negative impact is certainly evident.

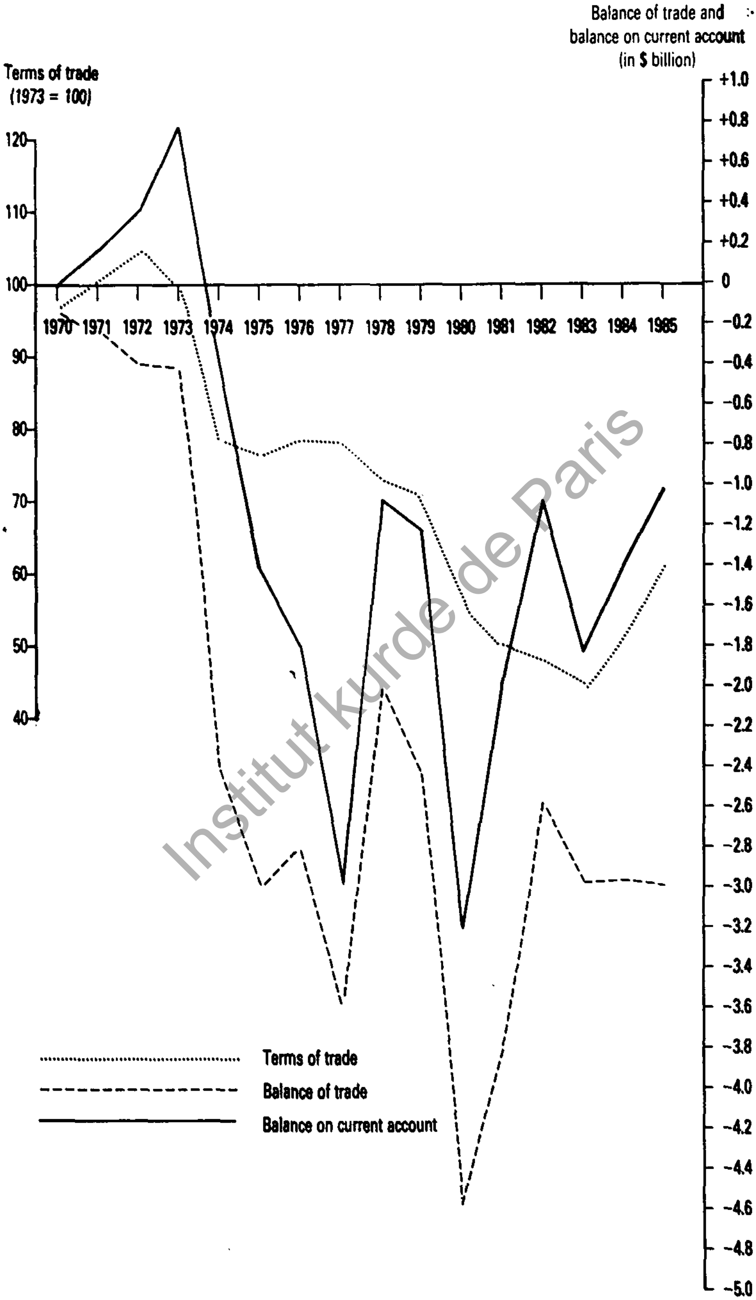
The fifth plan stresses more than in the past the outstanding tourism potentials, with their natural, historical and archaeological, sports and resort assets. Although the plan rightly indicates the need for more and better physical facilities to cater to the needs of the nearly 2.2 million tourists expected by the end of the 1980s (apart from day-trip visitors), instead of 1.3 million in 1984, this is not good enough. Turkey still lacks tourism consciousness and the human and organisational capacity to 'sell' her own undisputable potentials to the potential visitors throughout the world. Even the quite optimistic forecasts of tourism earnings by the end of this decade fall far behind those of other comparative economies, and Turkey's own potentials. This sector undoubtedly deserves much more comprehensive planning and implementation in the areas of economics, training, education and propaganda.

The balancing impact of workers' remittances from abroad benefited not only the period during which they were made, but also mitigated the adverse effects of terms of trade in the longer run. In certain periods, a fall in remittances (for reasons already indicated above) aggravated the situation, even if other factors, such as terms of trade or relative volumes of exports and imports, happened to be more favourable or at least stable.

While in 1979 remittances stood at nearly US$1.7 billion, and rose to $2.07 billion in 1980 and to $2.49 billion in 1981, they fell to $2.19 billion in 1982 and $1.55 billion in 1983, rose again to $1.88 billion in 1984, and fell to 1.77 billion in 1985.[15] The narrowing margin between the official and the free (or, black-market) currency rates, following consecutive devaluations, stimulated the influx of remittances intermittently. But later developments raised expectations of further currency adjustments and had a restraining effect on the flow of remittances.

Following the anti-inflationary measures and the resumption of growth in the course of the 1980s, the economy and the balance of payments enjoyed a certain measure of relief. Better utilisation of capacity, an improved supply of imported inputs, an impressive performance of MVA (manufactured value added) and the consequently larger supplies available for exports, along with checked domestic demand, flexible exchange

Figure 5.1: Terms of trade, balance of trade, and balance on current account, 1970–85



rates, a certain influx of foreign funds and greater export incentives — all contributed to reducing deficits and easing the debt burden. Further relief came from synchronisation of interest rates with inflationary rates[16] and from remittances from abroad.[17]

In the longer run, the terms of trade have been closely, though not homogeneously, correlated with the overall performance in foreign accounts, chiefly in trade balances, as will be shown below. Changes in the balance on current account, apart from the impact of terms of trade, have stemmed from the difficulties in the supply of imported inputs, the fluctuating performance of the economy and export-oriented production, as well as from the challenge of foreign indebtedness and annuities, and the availability of foreign funds (including remittances) and the state of foreign reserves.

Table 5.2 presents the comparative trends in the balance of trade, balance on current account and in the terms of trade.

Table 5.2 and Figure 5.1 clearly show that the main deterioration in terms of trade occurred immediately or a short while after the two-stage upsurge in world oil prices, thus affecting the size of deficits in trade and current accounts. According to SPO estimates,[18] Turkey lost, in the period 1973–7, some US$2,639 million due to the deterioration in her terms of trade. Further losses occurred towards the end of the 1970s and in the early 1980s following the second round of oil price rises. In 1980, the share of oil imports in total imports reached 48.7 per cent, and their cost shot up to 132.5 per cent of Turkey's total exports.[19] Incidentally, the close positive correlation between terms of trade and foreign balances is even more striking during 1971–3, when more favourable terms of trade coincided with rather low deficits in the trade balance, which rendered possible certain surpluses on current account.

The adverse effects of the surge in world oil prices was reflected immediately in 1974, in the terms of trade, foreign accounts and foreign reserves. But their cumulative, linkage-bound impact (including the cost of the industrial import inputs) was delayed till the later 1970s, due to a certain temporary restraint in public expenditure and deficit, and in money supply. The still continued relatively high growth rates also made their contribution.

As from the mid-1970s rapid deterioration took place in all these areas. External and domestic borrowing started increasing, while workers' remittances from abroad assumed a downward trend. Acceleration in the increase of money supply, in particular from 1977, combined with other factors of the inflationary upturn in 1979–80, following the coincidence of the second steep rise in oil prices, and the pressure of internal socio-economic (and politically tinged) factors. Only from 1983 did Turkey start enjoying the recent oil glut, and despite an increase in the volume of crude oil imports, her spending on them decreased[20] to 31 and 29 per cent in total imports in the years 1984 and 1985, respectively, with a further fall registered in the first six months of 1986, as compared with the same period of 1985.[21] Unfortunately, this fall was not sufficient to balance the overall rise in imports and in the deficit in that period.

THE IMPACT OF THE OUTWARD-ORIENTED STRATEGIES ON FOREIGN INVESTMENTS AND FOREIGN LIABILITIES

The already previously launched outward-orientation assumed new dimensions from the time it was explicitly adopted by the Özal government programme,[22] and the Decree No. 28 on the protection of the value of Turkish currency and the Export Regime Decree No. 18226.[23]

Export credits increased significantly and substantial tax rebates were allowed, conditioned by repatriation of the greater part of the foreign exchange earned, 80 per cent of which was to be sold to Turkish banks, and 20 per cent allowed to be held abroad. Restrictions on travel abroad were lifted; tourists going abroad were permitted to buy US$1,000 for each trip, and business men US$2,000. Turkish nationals were allowed to hold free foreign currency and open accounts with commercial banks as well as to dispose freely of their holdings.[24]

The improved economic atmosphere in 1984 had a beneficial impact on direct foreign investments, but in view of the unsatisfactory long-term trends in this field no firm conclusions may yet be drawn concerning the irreversibility of this change in direction. Since the later 1970s, direct foreign investments have exhibited a heavy downward trend, falling in some years even below the unimpressive figures of the more distant past. They fluctuated from US$132 million in 1977, to 65 million in 1978, 91 million in 1979, 54 million in 1980, 127 million in 1981, 55 million in 1982, 46 million in 1983, 113 million in 1984, but again only 99 million in 1985.[25] The total estimated volume of direct foreign investments amounted to US$1,250 million by the end of 1985. This figure is lower than the cumulative inflow of foreign investments, due to the exit of some investments during that period.[26]

Most foreign investments concentrated on manufacturing (with average shares of 45 per cent of foreign and 55 per cent of domestic participation), first on the list being chemicals and beverages, followed by electrical equipment, electronics, textiles, metal goods and machinery. Additional investments have taken place in tourism and, on a growing scale, in banking. Characteristically, the sectoral distribution of foreign investment has changed over time, from nearly 80 per cent in manufacturing in 1979, to 57 per cent only by 1985, and from nearly 20 per cent in services to almost 40 per cent, respectively.[27] As already indicated, despite the rapid increase in 1984, foreign investment has still remained hesitant and waiting for more propitious conditions, which may materialise with the setting up of free zones initially planned for April 1986.

Özal's recent policies have encouraged greater participation of foreign investments in major domestic projects. The outstanding instance is the second Bosphorus bridge, which should be externally financed and run for an extended period of time under conditions attractive to the foreign entrepreneur. Also new thermal power stations are negotiated on these terms.

Comparisons of the balance of payments since 1984 with former years may be misleading, because of the adoption of international standards in 1984 and the inclusion of imports financed by Turks abroad in private unrequited transfers, and not, as in the past, in capital accounts, thus 'improving' the current balances. Even so, the deficit remained high enough.

The heavy trade and foreign account deficits, the latter after deduction of workers' remittances from abroad,[28] compelled Turkey to resort to mainly short-term and high-interest borrowing in order to avoid imminent insolvency.[29] Then, following two multilateral debt renegotiations (through an OECD consortium) in 1978–9, Turkey started in January 1980 a phased elimination of trade arrears, to the amount of US$2 billion, in particular those owed to non-guaranteed suppliers (a sum of US$1.4 billion). Several options offered to the creditors, either in foreign exchange or in Turkish liras, finally led to the elimination of the suppliers' arrears by June 1982.[30] The partial re-scheduling of Turkey's debt, combined with quite successful (though partly temporary) disinflationary policies, led to greater willingness on the part of official international bodies to offer further assistance. This improved Turkey's overall standing on the international financial market, but has not solved basic problems of foreign indebtedness, annuities and future capital influx, in particular in view of the continuing deficits on current account. Other, official debts, to the tune of US$5.7 billion in the period 1970–80, had to be re-scheduled at interest rates in excess of LIBOR (that is, between LIBOR plus ⅜ per cent and LIBOR plus 1⅜ per cent).[31]

Despite those rearrangements, the structure of foreign debt deteriorated. The long- and medium-term liabilities increased between 1980 and 1984 by 20.65 per cent and by an additional 10 per cent in 1985; the short-term liabilities rose by 86.42 per cent in the 1980–84 period, and by 47 per cent in 1985. Total foreign debt, estimated at US$13,200 million in 1980, reached US$25,012 million in 1985,[32] thus pressing heavily on repayments (of principal and interest) and requiring continuous re-scheduling.

The direct result was a heavy pressure of annuities. Interest payments alone surged from US$546 million in 1979 and 668 million in 1980, to 1,193 million in 1981 and 1,465 million in 1982. Notwithstanding the partial re-scheduling in 1983, the interest payments on foreign debt reached US$1,442 million and the debt reimbursements US$1,093 million — giving a total of 2,535 million US dollars.[33] By 31 December 1984 disbursed foreign debt, excluding IMF credits, had risen sharply to US$19.9 billion, and with IMF credits to US$21.28 billion, with a particularly high rise in short-term debt. Due to the short-term character of part of the capital inflow, annuities increased to US$2,693 million, despite a slight fall in the share of interest to US$1,276 million.[34] The estimated annuities for 1985 (excluding transactions with the IMF and interest on short-term credits) have been set by Treasury and Central Bank sources at US$2,919 million (US$1,940 million principal and US$979 million interest payments).

In spite of new recent difficulties, the government expects that annuities on foreign account, which will fluctuate around US$2,900 million in 1985–7, will gradually decrease to US$1,743 million in 1990, and fall more rapidly thereafter, following a better performance in overall foreign accounts.[35] Apart from the fact that the interest on IMF and short-term credits is excluded from these calculations, estimates of prospective annuities, submitted by the IMF and the World Bank, are significantly higher. These are supported by initial returns on less favourable foreign trade trends in 1986, showing an increase in imports and decrease in exports. Even though more imports may have a moderating effect on inflationary rates and assist in meeting the requirements of industry, the less than satisfactory trend in exports may adversely affect the annual current account if not balanced in the final results of the year and/or by invisibles, particularly remittances.[36] Still, in the short run at least, Turkey's ability to meet the as yet increasing annuities is rendered possible by the promising trend in long-term capital inflows and private transfers.[37]

TURKEY'S RELATIONS WITH HER MAIN PARTNERS — THE MIDDLE EAST AND THE EEC

In recent years, as indicated above, a deliberate and sharp turn has taken place from inward, import substitution, to outward-orientation strategies. This has been partly warranted by the favourable experience of some rapidly developing newly industrialised countries (NICs), as well as by Turkey's own frustrations with the results of her past strategies. In addition, however, a number of Turkey's comparative advantages, such as her geographical location and proximity to the markets, and good relations with the Muslim countries, have proved conducive to outward-oriented activities.[38] In this context, it is interesting to note that since the latter part of the 1970s not only did a shift in total trade to Islamic and Arab countries (at the expense of the West) occur, but even more significantly a structural change in exports became evident. Turkey exported to the West chiefly agricultural and textile goods, while her main industrial consumer and producer goods plus entrepreneurship found new outlets chiefly in the markets of her closer and more distant Islamic neighbours. Quite recently, a certain reversal in the direction of trade started taking place, with a resumption of the trend to the Western markets. The reasons are manifold. The oil countries lost the momentum they had acquired in the boom period, and some of them, like Libya, proved unable to meet their financial commitments on time. The resumed growth in the Western economies, following the period of stagflation, and their growing rapprochement with Turkey, were additional factors contributing to the change.

A further comparative-advantage factor has been the availability of labour ready to work in less pleasant occupations and under harsh conditions if paid in hard currency.[39] At first, this applied mainly to Western-oriented migrant labour, but later on a growing number turned to North Africa and the Middle East, where Turks were able to compete also in professional jobs. These advantages were actually exploited through 223 Turkish firms in projects worth US$15 billion, and the income of some 250,000 Turkish employees working in Arab countries started to exceed that of their fellow migrants in Europe. However, towards the end of 1984 and in the course of 1985 alarm bells started ringing, due to the falling number of contracts, delays in payments, and accumulating debts to the Turkish contractors.[40] The signals proved particularly worrying in the face of European pressures on Turkish labour to withdraw from European markets, at a time when emigration to the Arab oil countries, except Saudi Arabia, started falling off in the wake of the oil glut.

Under-capitalised Turkish companies, hungry for new credits and facing competition abroad, chiefly from South Korea, faced bankruptcy. The Union of Chambers of Commerce and Industry, opposing Özal's deviations from the original model, which some defined as 'what is good for big business is good for the country' (a paraphrase of the well-known past American 'model'), started pressing for a kind of supply-side economics and emphasis on domestic demand rather than on export incentives.

On the other hand, for 20 years Turkey's relations with the European Common Market have constituted an important element in her economic performance, and especially in the external activities.[41] To a certain degree, since the mid-1960s the EEC and OECD have taken over from the United States the dominant assistance task it performed through the Marshall Aid and AID in the past. Even before her association with the European Common Market, Turkey enjoyed the assistance of OECD's (originally OEEC's) ODA (Official Development Assistance) to the extent of 2.2 per cent of her GNP in 1960/1, and then 1.5 per cent in 1970/1, and 1 per cent in 1982/3. The grant element was very high, and the lending part was on concessionary terms. From 1962 until the present time an OECD consortium has continuously supported Turkey's requirements for external aid, mainly in the form of concessionary and conversion loans. This has usually been accompanied by conditions, chiefly regarding Turkey's monetary policies.[42]

Since the 'Ankara Agreement' of 1963, which associated Turkey with the EEC, and the subsequent supplementary agreement of 1971 (the Additional Protocol), providing for a transitional second stage towards full integration in the EEC by the year 1995, hopes have been cherished of an improvement in Turkey's foreign balances and access to generous credit and investment sources. These, it was believed, would stimulate real growth and prevent the necessity to resort to short-term and expensive credits, and/or to domestic pump-priming, which lead in the final analysis to inflationary pressures. Unfortunately, relations with the EEC deteriorated, *inter alia*, because of the military coup in 1980 and the emergency measures against political or social opposition, even though these measures have been gradually relaxed. Meanwhile, the extension of EEC membership to Greece, Spain and Portugal again put Turkey at a disadvantage and required readjustments on the part of both sides.

Following the recent improvement in the relations between the EEC and Turkey, despite the still persisting political complications and the almost secular 'Greek trauma', the Turkish–EEC Joint Parliamentary Commission, suspended since 12 September 1980, was to be reactivated following the entry of the Turkish delegation to the European Council in April 1984, and the further strengthening of political and commercial links. This was reflected in a resumed increase in the EEC's share in Turkish exports and imports and in a progressive, though still vacillating, normalisation of current relations. However, Turkey's full-fledged membership in the EEC has remained a distant prospect, due to both political and economic factors.[43] Only in April 1986 was Turkey finally granted full membership in the Council of Europe, and even presided over the Council's meeting in November 1986. Apart from the still prevailing European disapproval of the pace of Turkey's return to democracy, one of the important objections to full Turkish membership in the EEC is the latter's fear that Europe will be flooded with Turkish 'guest-workers', mainly in Germany but in other EEC member countries as well.[44] Be that as it may, other reasons remain for not admitting Turkey to full membership, such as the fear of Turkish competitive free imports, for example, of agricultural products or textiles. However, in April 1987 Turkey did already apply and looks forward to an early admission, before 1992, when the Single Unity Act may prevent any further enlargement of the Community. An outright rejection of an important NATO member is improbable, but a further postponement, accompanied by the offer of the status of a non-voting observer, is raised as a possible solution by the *Economist*, at least until full democracy is restored.[45] By mid-1987, the expected reactivation of the Turkish–EEC Joint Parliamentary Committee was not yet implemented.

CONCLUDING REMARKS

A forecast of future external economic balances, based on trends extrapolated from the recent past, seems to be even more risky than that pertaining to domestic activities. The main reason is the high degree of dependence on exogenous factors, over which any given country has virtually no control, except in cases of monopolies or oligopolies, as, for instance, the domain of crude oil. Even the latter is liable to suffer and affect adversely the oil exporters, as proved by the recent oil glut. Turkey's performance in her external trade balances, as well as on foreign accounts in general, highly depends on the (exogenous) import prices of oil and other raw materials, the state of the industrial economies, and the flow of remittances and other capital transfers from abroad. With the disadvantage of her less than satisfactory standards of efficiency and competitiveness of her export-oriented products, Turkey has to face the challenge of competition on the international market, with its fluctuating rates of growth and demand and a substantial degree of protectionism.

In terms of the relative weight of current account deficits in GNP, the economy improved its performance from a low of 5.8 per cent in 1980, to 3.2 per cent in 1981, 1.6 per cent in 1982, then a shift to 3.7 per cent in 1983, and again a more favourable 2.8 per cent in 1984 and 1.9 per cent in 1985. The feasibility of the forecast of 2.3 per cent for 1986 depends, as in the past, on the actual rates of real growth and the extent of the current account deficit itself.[46]

NOTES

1. Compare DPT, *Fifth five-year plan 1985–9*, p. 51; Tüsiad, 1986, p. 85.

2. Tüsiad, 1985, p. 90, and 1986, pp. 81–2.

3. The export-power (Z_x) is defined as follows: $Z_x = \Sigma\lambda_i\delta_i$ (λ_i is the country's export share of commodity i in total world exports, and thus $\lambda_i\delta_i$ represents the country's export share of commodity i weighted by the relative importance of commodity i in the country's exports. The index of import-market-power (Z_m) is defined symmetrically. Compare W. Branson and L.T. Katseli-Papaefstratiou, 'Income instability, terms of trade, and the choice of exchange rate regimes', *Journal of Development Economics*, vol. 7, Amsterdam, March 1980, quoted by Morris Goldstein, *The global effects of fund-supported adjustment programs*, IMF, Washington, DC, March 1986, pp. 35–36.

4. See B. Balassa, 'Outward orientation and exchange rate policy in developing countries: the Turkish experience', *Middle East Journal*, vol. 57, no. 3, Summer 1983, pp. 438–9.

5. İş Bankası, April 1984; OECD, *Main economic indicators, May 1986*, Paris, 1986, pp. 152–3, 172.

6. Fahrettin Yağcı, 'A macroeconomic model of the Turkish economy', *METU studies in development*, vol. 10, no. 1, 1984; OECD, *Economic outlook*, June 1985, pp. 124–5; Tüsiad, 1985, pp. 143–51.

7. For a valuable discussion of various aspects of Turkey's foreign trade since the end of the Second World War, see Anne D. Krueger, 'Foreign trade', in K.-D. Grothusen (ed.), *Türkei/Turkey*, 1985, pp. 436–60.

8. IMF, *World economic outlook*, March 1984.

9. Tüsiad, 1986, pp. 81 ff.

10. Merkez Bankası, *Annual report 1983*, pp. 25 ff.

11. İş Bankası, 1984/IV; Tüsiad, 1985, pp. 93, 110, and Tüsiad, 1986, pp. vii–viii; DİE, *Aylık Ekonomik Göstergeler*, April 1986.

12. DİE, *Report 1984*.

13. Maliye ve Gümrük Bakanlığı, *1985 Yıllık Ekonomik Rapor*, 1986, pp. 142–3.

14. DPT, *Fifth plan 1985–9*, pp. 134–5. With respect to tourism, the comparative figures for tourism receipts, for instance in 1982, were US$7 billion for Spain, $8.2 billion for Italy, $1.5 billion for Greece, $877 million for Portugal, $844 million for Yugoslavia and $377 million for Turkey. See DİE, *İstatistik Yıllığı*, 1985, p. 459.

15. DİE, *Türkiye İstatistik Cep Yıllığı 1984*, pp. 250–55; and *İstatistik Yıllığı 1985*, pp. 332, 368; Central Bank sources; *OECD Observer*, no. 139, Paris, March 1986; Tüsiad, 1986, pp. viii, 99–100.

16. In the second half of 1983, repeated reductions in interest rates, coupled with re-acceleration of inflation, resulted again in negative interest rates.

17. *Economist*, 'Turkey — a survey', 12–18 September 1981.

18. DPT, *The fourth five-year plan*, October 1979, p. 89.

19. Maliye ve Gümrük Bakanlığı, *1985 Yıllık Ekonomik Rapor*, p. 130.

20. Union of Chambers, *Economic report 1984*, Table 56.

21. SIS sources; Tüsiad, 1986, p. 92; Istanbul Sanayi Odası, *1986 Yılı İlk Yarısında Türkiye Ekonomisi*, 1986, pp. 138–9.

22. *The government programme*, 19 December 1983, p. 28.

23. Published in *Resmi Gazete* of 29 December 1983, and put into effect on 21 January, 1984.

24. Merkez Bankası, *Reports 1983 and 1985*. Characteristically, while gross foreign exchange reserves (including gold holdings) at the Central Bank fell from US$1,288 million to $1,271 million (between 1983 and 1984), they increased at the authorised banks from $845 million to $1,860 million by the end of 1984. If overdrafts are deducted, the net Central Bank reserves fell to $737 million at the end of 1984. This covers about one month's imports value, and together with the authorised banks' reserves — about three months. Compare İş Bankası, *Economic indicators of Turkey 1980–1984*, p. 14; Tüsiad, 1985, p. 111.

25. Merkez Bankası (1985); DİE, *Aylık Ekonomik Göstergeler*, Nisan–1986–April); *İstatistik Yıllığı*, 1985, p. 429. Even more than in other areas of economic statistics, data on inflows of direct foreign investments differ widely according to their source, and therefore the exactness of the figures is dubious. For instance, IMF sources (*IFS*, August 1986) submit lower figures for 1979 (US$75 million), 1980 ($18 million), and 1981 ($95 million). What is evident from all sources, however, is the still low profile of foreign investors. See also, *The Economist* 4–10 April, 1987.

26. Tüsiad, 1986, p. 186.

27. Tüsiad, 1985, pp. ix, 112–114, and Tüsiad, 1986, p. 186.

28. See cumulative table on p. 154.

29. World Bank, *Turkey*, 1980, p. 4.

30. IMF, *Recent developments in external debt restructuring*, Occasional Paper 40, Washington, DC, October 1985, p. 36 and *passim*.

31. Maliye ve Gümrük Bakanlığı, *1985 Yıllık Rapor*, 1986, pp. 149–50.

32. IMF sources; Tüsiad, 1986, p. 157.

33. Union of Chambers, *Quarterly Economic Review*, January–March 1984; and DİE and Merkez Bankası sources.

34. Ibid. and *İstatistik Yıllığı* (1985), p. 429.

35. Tüsiad, 1986, p. viii.

36. Ibid., pp. 143–51. While the first four months of 1985, with an income of $520 million from remittances, showed an upward trend in comparison with the same period in 1984, with $362 million, the whole-year performance in 1985, with $1,774 million, was worse than in 1984, with $1,881 million.

37. OECD, *Economic outlook*, June 1985, pp. 124–5.

38. These advantages demonstrate Turkey's great potentials in such activities as tourism, transportation and communications, including transit and depot facilities.

39. Compare annual publications of Tüsiad, *The Turkish economy*, from 1979 on.

40. *The Middle East*, 1 March 1985. According to another definition

of firms, namely, 'Turkish contractors abroad', the larger number of 296 in both 1985 and 1986 is reached. By the middle of 1986, Iraq's overall outstanding debt to Turkey was over $1 billion, and that of Libya over $500 million.

41. For an interesting discussion of Turkey's relations with the European Common Market, see H. Gumpel, 'Die Türkei und die Europäische Gemeinschaft', in Grothusen, 1985, pp. 461–71.

42. Compare OECD, *1985 report*, November 1985, *passim*.

43. Compare M. Hiç, 'Towards normalisation of Turkish–EEC ties', *Turkish Daily News*, 9–10 June 1984, and 'A perspective on Turkish–EEC relations', ibid., 13 May 1985. Also Hiç, 'The Balfe Report: accusation and facts', Parts I and II, ibid., 8–9 November 1985, and Hiç, 'Türkiye-AET iliskileri', *Milliyet*, 8 November 1985.

44. *Türkei*, Verlagsbeilage der Süddeutschen Zeitung, Nr. 179, Donnerstag, 7 August 1986.

45. *Economist*, 'Turks at the gate' and 'Turkey, knock, knock', 21 February 1987, pp. 16 and 57–8. According to the *Economist*, Turkey claims that the agreement of 1 December 1986 permits her workers to go anywhere in the community. See also M. Hiç's interview on Turkish–EEC relations in *Turkish Daily News*, 12 and 17 March 1987.

46. Compare OECD, *Economic outlook*, 40, December 1986, p. 139.

6

The Inflationary Syndrome

REMARKS ON INFLATION, STAGFLATION, SLUMPFLATION

In every malady, the correct diagnosis of its nature and causes is a precondition for the correct and optimal therapy. We shall attempt to follow this procedure, which is neither easy nor definite, by putting the Turkish case in the general conceptual framework. Here two preliminary remarks are of importance.

First, the anti-inflationary experiment of the early 1980s produced two diametrically opposed reactions. One praised it almost indiscriminately and uncritically as a success story of defeating hyperinflation in a single stroke. Consequently, it has been often recommended as the right panacea for other economies in a similar situation. The other reaction has criticised it severely as a purely administrative, arbitrary, political, anti-social and non-economic device, only partly successful in the short run, and allowing the ugly face of stagflation to appear again very soon. In fact, little attention and research has been devoted to the various linkages of Turkish disinflationary strategies and their relation to their theoretical background.[1]

Secondly, the very definition and essence of hyperinflation (or, runaway inflation), which is usually treated as a numerical phenomenon of a double-digit annual inflation tending to degenerate into a triple- (and, exceptionally, a quadruple-) digit one, must be qualified by additional dimensions, related, of course, to the original concept; this kind of inflation is extremely difficult to control it and it raises a host of problems. Among them are: gradual versus 'at-one-stroke' strategy;

economic versus social considerations; one- (anti-inflationary) versus multi-flag (disinflation, balance in foreign accounts, employment and growth) policies; short- versus long-term implications of disinflation; and, last but not least, the differing theoretical concepts dealing with the cause–effect relationships of inflation, employment and growth.

In this context, before proceeding with the individual Turkish case, it is worth while to take another look at the general theoretical concepts and controversies, to test them with empirical evidence and then with the trends and analysis of Turkish inflation and disinflationary strategies.

The 1970s witnessed stagflation in all Western economies and an international controversy on the optimal strategy to fight inflation through detection and analysis of its true causes and implications. This controversy also involves disagreements on inflation as either a cause, or, possibly, a result of other distortions in the economy, apart from monetary factors, in particular with regard to the rate of real growth, unemployment and foreign accounts. Non-monetarists have been suspicious of a return to the naive quantity theory, originated by Hume in 1752 (in its simplest form, $P = \phi(M)$), which was dominant in the nineteenth century, and even of the more sophisticated Marshallian version, as represented by the equation $P = MV/O$, whereby prices are a function of money supply, qualified by velocity and output,[2] even though further modified by the 'public's propensity to hold cash balances'.[3] The following wide discrepancies in theoretical and empirical findings, and disagreements on the appropriate short-term and long-term solutions, deserve closer attention and reassessment, with particular stress put on the notorious correlation between disinflation and unemployment.

In this context, we shall refer only to certain concepts relevant to our subject and to select works, out of an enormous number of publications on inflation, its repercussions, and anti-inflationary strategies.

It is still customary to use the traditional, in fact monetarist definition of inflation, that is, 'too much money chases too few goods and services', though it has assumed a more qualified formulation, which, in fact, also offers a general measurement of inflation:

$$\text{I (rate of inflation)} = Y_m - Y_r$$

indicating that a change in money income minus the change in real output shows the degree of inflation.[4] In other words, an excess demand for goods and services causes the purchasing power of money to fall.[5]

The monetarist approach actually adheres to the neo-classical concept of the quantity theory of money. It also addresses itself specifically to developing countries with a poor domestic money market and lavish pubic deficit spending, mainly on infrastructure and socio-political-military targets, thus creating excessive money supply and stimulating demand over and above real growth, and hence spiralling inflation. More recently, in the face of stagflation, monetarists have reformulated their attitude. They, and other free-market supporters, have become impressed by the empirical evidence against the stable trade-off of the Phillips curve, between inflation and unemployment.[6] According to those empirical findings, the negative slope of the curve turns positive, reflecting the positive correlation of high prices with high unemployment that is characteristic of stagflation.[7] Still, they stick to the view that inflation can be defeated mainly, if not exclusively, through monetary policy.

A relative increase in money supply (as compared with changes in real output) is still considered 'an essential condition of inflation' also by non-monetarists.[8] The inflationary distortions belong to the category of more or less non-controversial issues, such as irrationality of personal buying decisions, downward trends in savings and investments (leading to reversal of growth), erosion of capital markets, of financial accountability and of exchange rates,[9] and rendering long-term planning practically impossible.[10]

What puzzled economists and compelled them to take another look at the whole concept and optimal strategies, was the phenomenon of stagflation in the latter part of the 1960s and in the 1970s. While during the great depression of the early 1930s recession and unemployment were inseparable in the context of deflation, in the early 1970s massive unemployment paired with double-digit inflation.[11] The Phillips curve shifted from its negative slope to a positive one.

In line with the Phillips trade-off concept, Harberler believes that if we fight recession, we stimulate inflation, and if we fight inflation, we stimulate recession. This view, which had some empirical justification until the mid-1960s (and is being reviewed nowadays by both economists and political practitioners), has encountered growing doubts and opposition on the theoretical as well as on the empirical level, on the strength of non-negligible evidence. In principle, the long-term solution to inflation consists of sustained growth of output and employment. But even Laffer, who, in accordance with his supply-side economics, favours this strategy, is aware of the difficulties resulting from the gap between reward and effort. Lagging efficiency and output in face of rigidity of wages and transfer payments leads to incompatibility between changes in real product and real wages, which results in nominal wage increases exceeding real growth (following the deposal of money illusion), in excessive money supply, demand and inflation.[12]

It was the 1970s which gave birth to stagflation, following upward pressure of import costs and wage costs, and thus inflationary explosion leading almost simultaneously to an erosion in output and employment. World-wide redistribution of income on the heels of the oil boom (which, in the final analysis proved rather short-lived) first impaired the industrial economies, with primary and secondary adverse effects on the non-oil LDCs, and, in particular, the LLDCs, and enhanced the fall in growth and employment begun earlier. This acted as a boomerang not only on the poorer world partners, but finally even on the oil-haves,[13] with the DCs gradually overcoming the excessive oil dependency, reducing inflationary rates and regaining a measure of stability, though accompanied by continued, albeit slightly reduced, high unemployment.

To reflect the full impact of stagflation and slumpflation, Weintraub suggests the Misery Index, namely, average consumer price rise plus average annual unemployment rate, which may be instructive in determining required policies and serve as a tool for measuring their success or failure.[14] This sounds interesting, but it may also distort the true picture of misery, under, for instance, the quite feasible conditions of low and even falling prices and extensive unemployment, such as prevailed during the 'classical' great depression.

All economic schools are agreed upon the need to fight inflation and its economic and social distortions. The dilemma was and has remained how to fight inflation without adversely affecting growth and employment. The notorious stagflation and slumpflation added unexpected complications and distortions, with inflation accompanied by stagnant and even falling output along with non-'natural'[15] and non-frictional rates of unemployment. Controversy *does* exist, therefore, on both the theoretical and inconclusive empirical levels: on the alleged one-way impact of money supply; the optimal disinflationary strategy; the focus on the initial measures; the consistency of simultaneous measures, such as wage and price control, and deliberate recession (that is, zero or negative growth), the macro costs of unemployment on the social as well as the economic levels, and the durability of results (repressed inflation, for example, may only delay its effects and become more dangerous due to the hidden cumulative process).[16]

This controversy enhanced the case of supply-side economics, which revived Say's Law of 'supply creating its own demand', occasionally mixed with free-competition micro-activity on the one hand, and, on the other, reinforced neo-Keynesian concepts, favouring vigorous public macro policies for the sake of economic and social welfare.

The neo-Keynesians were able to mobilise some empirical evidence to prove their point, in particular against the background of stagflation, the 'two-headed monster combining mass-unemployment with rapid inflation'.[17] The neo-Keynesians offer the very same strategies and measures as the orthodox Keynesians, namely, demand management policies and wage-fixing policies, but for opposite targets. While the orthodox Keynesians favour demand management to maintain full employment and wage-fixing policies to control inflation, the 'new' ones wish to use demand management to control the inflation of money expenditure, and wage-fixing policies to maintain full employment.[18]

The credo of the neo-Keynesians is that money wages should not rise sharply, if the COL rises due to *falling* productivity or deteriorating terms of trade, but wages should not fall if costs and prices fall due to *improving* productivity. Thus, 'demand management' can avoid higher unemployment and inflation.[19]

Empirical evidence is not conclusive. Between 1950 and 1970, both Japan and the United Kingdom enjoyed low average rates of unemployment, but Japan's rapid growth left the stagnating English economy well behind.[20] Afterwards, during 'stagflation', the overall picture shows very high unemployment in almost all industrial countries accompanied by zero or low growth rates, while a number of countries, chiefly Japan and Switzerland, have shown a close correlation between substantial and sustained rates of growth, falling rates of inflation and very low unemployment.[21] This latter scenario strengthens the neo-Keynesian and structuralist strategies, which put emphasis on growth in real product as a basic long-term cure for inflation. Moreover, recent econometric findings have shown a close correlation between wage inflation and import prices, and no statistically significant correlation between aggregate unemployment and wage inflation. The deceleration of inflation in the OECD countries between 1980 and 1982 has been rightly attributed to the fall in the prices of primary products, mainly oil, following the oil glut, and not to higher unemployment.[22]

Weintraub is one of the most outspoken critics of the 'textbook cures' for inflation, which usually end up repressing growth and stimulating unemployment. Although he deals specifically with American economic policies, the issues and strategies are of a more general character and applicability. He particularly attacks the monetary 'therapy', which leads to unemployment, with or without recession, an *iatrogenic* side-effect of a failing medicine.[23] On the positive side, he invokes 'Okun's Law', which points out the losses in GNP due to unemployment (plus loss in taxes, growing welfare transfers, etc.), and calculates that each one percentage point increase in jobs lifts GNP by about 3.2 per cent.[24] This point is relevant to the economic and social costs of unemployment in Turkey, and is referred to in the following sections as well as in Chapter 7.

The fear of inflation results in a retreat from many social, economic, infrastructural and other programmes, which may not stimulate demand more than transfer (especially unemployment) payments, and should instead generate real growth, that is, attain the combined target of the neo-Keynesians. In principle, price rises cause increased money supply, contends Weintraub, and not the other way around, as maintained by monetarists.[25] A reasonable rule of thumb is that a 1 per cent rise in money supply is sufficient to compensate for a 2 per cent rise in prices, to maintain smooth economic activity and reduce unemployment. A combined solution to inflation therefore consists in controlling the rise in average wages and profits until real income (output) grows, followed by a brake on government spending.[26] Inflation, rather than tax, adversely affects modernisation and productivity, and taxes play a greater role in suppressing demand inflation than in price increases. The tax mechanism is not a purely fiscal or even social tool, but also a powerful economic incentive and disincentive, as are rates of interest.

One of the major issues in anti-inflationary strategy is whether disinflation can or even should be administered at one stroke, or whether it should involve gradual, step-by-step measures.

Sargent[27] shows in all his case-studies of the past (Austria, Poland, Germany and Hungary) their hyperinflation was stopped suddenly and that they all had four common characteristics. On the causal side, they had a fiscal regime that led to extravagant deficits; and in the policies adopted they had drastic disinflationary fiscal and monetary measures, radical checking of 'high-powered' money supply, and immediate stabilisation of price levels and exchange rates.

These policy measures were all synchronised and assisted institutionally by the establishment of independent central banks, immune to government pressures.

Tobin also submits that temporary fiscal and monetary measures alone, usually involving unemployment, would have missed the target of sustained disinflation,[28] and will do so in the future, too. Therefore runaway inflation must be stopped at one stroke, along the whole front of all components, taking account of the chain reactions of prices, wages, interest rates, exchange rates, money supply, public budget, taxation (carefully avoiding blows to savings and financial assets) — all linked to long-term anticipation and targets of growth and employment. This is certainly not an easy task and it requires a strong, determined administration, conscious of both the underlying prevailing conditions and the prospective results of the treatment in terms of long-term targets.

Still, decision-makers have to face the reality that full, long-run equilibrium showing no unemployment, no job vacancies and no unanticipated inflation is a practically non-existent entity. The economy is actually in a permanent disequilibrium. In spite of this, and contrary to some predictions, low unemployment rates need not lead to inflationary explosion and economic disasters. As Tobin points out,[29] the latter have usually resulted from catastrophes, such as wars, revolutions, defeats and reparations, and not from wage and price mechanisms.

The structuralist concept, recently popular with Turkish economists and even policy decision-makers, attributes the main causes of inflation to structural imbalances and, in common with anti-monetarists and neo-Keynesians, considers increases in money supply (and according to some interpretation also wage increases) as an adjustment and result rather than a cause of inflation, due to the imbalances. These structural imbalances derive from inelasticities and distortions in exports, import substitution involving subsidies and rapid population growth often exceeding real economic growth.

Turkey may serve as a good case study and help, *mutatis mutandis*, in comparative studies of other economies at different stages of economic development suffering from inflation of various degrees. Despite the undeniable importance of changes in money supply and public deficit spending as factors in the inflationary process, we shall deal extensively with the hypothesis that inflation has a much more complex and structural character and elaborate upon disinflationary strategies.

LONG-TERM INFLATIONARY TRENDS IN TURKEY

This review covers a period of about 60 years, but a more detailed analysis will deal with the events and policies since the sharp upturn of the inflationary trend in 1979–80.

In Turkey, as in many other countries, the assessment and measurement of inflation encounter many difficulties, due to both the deficiency of data and the choice of the 'representative' inflation, for instance, wholesale price indices, consumer prices and COL indices, and average or end-of-year data. The choice is perhaps less significant for an overall long-term review, but it gains in importance in more detailed discussions of current events, measures and policies, in view of the possibility of substantial discrepancies between wholesale and consumer prices, their differential causes, the annual and monthly price fluctuations and, consequently, the effectiveness of policy responses. We should also bear in mind that while in the past a one-digit inflation figure of 4–5 per cent *per annum* was considered high (except for the extraordinary, cataclysmic post-First World War outbursts in Germany, Poland and elsewhere and, intermittently, later on, too), in recent years many economies have been yearning for that one-digit inflation, which in many cases, including Turkey for a while, has become an almost standard *monthly* rate, occasionally even slipping into a two-digit monthly rate. Also, contrary to some textbooks, inflation is accompanied by both unemployment and setbacks in output and growth, characterised as stagflation and slumpflation.

Until the 1970s, the Turkish economy experienced a relatively mild one-digit inflationary trend, though upward spurts did occur sporadically, during part of the Second World War for instance, and in the second half of the 1950s. Such relatively mild trends are understandable in low-level-equilibrium economies (and as cyclical phenomena in DCs), but they are not symptomatic of a growth-oriented economy such as Turkey from the early years of the Republic, even though growth may have been uneven, with setbacks and disappointments and disguised unemployment. Non-negligible self-control on the part of the government, partially successful planning, and intermittent foreign assistance rendered these rather moderate past trends feasible. Scattered outbursts of inflation were checked either by emergency control measures, for instance, during the Second World War, or by drastic changes in economic policies, accompanied by pressure from international bodies (the World Bank and the International Monetary Fund), such as in 1958.

Okyar[30] attributes the radical change from low or even negative average inflation rates between 1923 and 1939, to rising rates during the years 1941 to 1943, and then again between 1956 and 1959, and on an increasingly sharp upward trend from 1970 on to the political change from a one-party to a multi-party system with all its socio-economic implications. Monetary aggregates and financial measures have been determined, in his opinion, by the politically motivated governments and not by the pseudo-independent Central Bank. This assessment seems justified in view of the political transformations over the years.

The memories of the Ottoman financial (and political) predicaments were fresh in the minds of the Turkish leaders of the one-party system in the 1920s and 1930s and, despite the industrial drive in the latter period, economic policies stuck to the image of self-reliance and judicious acceptance of foreign assistance. Classical orthodox views prevailed during the inter-war period (notwithstanding the emergence of etatism) with regard to financial and monetary policies. The new political and social realities under the post-Second World War multi-party system and new external relations gave rise to a series of changing economic attitudes and concepts. Pretty soon the proclaimed radical liberal thinking of the ruling Democratic Party in the 1950s gave way to lavish overspending and unchecked expansion, in particular in costly infrastructure and politically oriented ventures. The degeneration of those liberal policies into interventionism in the second half of the 1950s, and the resulting socio-economic upheaval and unrest, contributed largely to the military takeover in May 1960, to a return to the planning concepts, their extension to comprehensive planning and setting up of the State Planning Organisation (SPO). A new, inward-oriented industrialisation drive, as a leading factor in overall economic growth, did produce relatively good results for the better part of the 1960s (after an initial setback in 1961), as reflected in real growth and the beginnings of structural change in sectoral occupation and output.[31]

For a while, the country, which set off from an economic low, inflation, unemployment, and foreign exchange difficulties at the turn of the 1950s, enjoyed later on a certain degree of stability (with an average annual inflation rate of 4.6 per cent in the 1960–65 period), plus an average annual growth of 5.3 per cent at constant prices, thus deviating from the original Phillips-shaped inflationary 'trade-off' curve.[32] GNP grew mainly through the public sector, and real growth also made possible a *per capita* growth of about 3 per cent.[33] The budget deficits were manageable, and a satisfactory performance in foreign transactions kept external debt at modest levels.

Despite proclaimed central and comprehensive planning and policies, the government and the SPO were able to apply relatively mandatory planning only to the SEEs, chiefly in industry and to a certain extent in banking, to the public sector, and to fiscal and monetary policies — all with a rather limited degree of efficiency and success. The agricultural sector, private industry, non-public services and most housing were in fact either residuals of the planning process or independent entities, some important and some marginal to the macro performance.

Necessarily, imbalances and bottlenecks, inherent in every economic system, both free and centrally planned, become even stronger in a 'hybrid' economy, where the public and private sectors clash over limited resources, priorities and government support.

Turkish business cycles did not synchronise exactly with those of the international economy. The country's share in international trade and in particular in world exports was insignificant in the past, but it increased recently, as did in particular the share of both exports and imports in GDP.[34] Thus, under conditions of emerging outward-oriented strategy, the impact of changes on the world market grew in importance. However, while in the Western economies stagflation already started in the second half of the 1960s, industrial prices continued to rise even before the oil boom in 1973, and unemployment took on menacing dimensions, the impact on Turkey was delayed until the beginning of the 1970s (apart from endogenous factors pushing inflation up), and the impact of oil prices (except for the critical year 1974) was felt seriously along with other inflationary factors only in the later 1970s.

But then, when the advanced and diversified Western economies started overcoming and adjusting to the effects of the oil shock — albeit at the cost of continued unemployment mitigated by a relatively well-functioning welfare economy — Turkey was late in picking up the residuals of the oil boom, of the Western recovery and, later on, of the oil glut of the early 1980s. The later 1970s started showing a dangerous turn along the entire front: a falling and even negative *per capita* growth, a rapid increase in the deficit on current account, serious deterioration in terms of trade, a fall in foreign reserves below the red line, a rapid depreciation of the local currency, and the perilous runaway inflation. The still mild double-digit inflation of the early 1970s of around 15–20 per cent *per annum* started spiralling and sky-rocketing towards the end of the decade, when it passed the record mark of 100 per cent.

Attempts to escape the growing danger of slumpflation, creeping into the Turkish system at the turn of the 1970s, gave rise to an endeavour to defeat inflation at one stroke and by all available means. While the short-run success of this effort was significant, it revived the argument about the roots of inflation, its backward and forward linkages, with their economic, political and social implications and priorities and, finally, the search for solutions and long-term strategies.

INFLATION AND DISINFLATION IN TURKEY IN THE 1980s

As can be seen from Table 6.1 the upsurge of inflation began on a relatively moderate scale in 1974 on the heels of the soaring

Table 6.1: Indicators of inflation, 1970–85

Year	*Average annual percentage change in inflation (wholesale prices)*
1970	11.9
1971	15.9
1972	18.0
1973	20.5
1974	28.9
1975	16.2
1976	16.1
1977	24.9
1978	43.8
1979	67.8
1980	107.2
1981	36.7
1982	27.0
1983	30.4
1984	50.3
1985	43.2

Sources: DİE (SIS), *İstatistik Yıllığı*, 1984 and 1985; DİE, *Wholesale and consumer price indices*, April 1985.

Table 6.2: Wholesale price indices, 1979–1985 (in percentages over preceding year)

Year	*Annual average*	*End of December*
1979	67.8	81.4
1980	107.2	94.6
1981	36.7	25.7
1982	27.0	24.8
1983	30.4	40.9
1984	50.3	52.0
1985	43.2	37.9

Source: DİE (SIS), *İstatistik Yıllığı*, 1984 and 1985.

oil import prices, but runaway inflation started in 1977, reaching a peak in 1980. Though the COL index, partly subject to control through subsidies and other devices, is intermittently referred to, the figures given in the table are wholesale prices, since, under the conditions prevailing in Turkey, they are more reliable and indicative. Still, it should be mentioned that here too there are discrepancies between the data of the various government agencies themselves and, even more so, between them and other more independent bodies.[35]

Comparison of average and end-of-year inflation rates, as measured in wholesale prices, shows a sharp rise at the end of 1979, lower year-end rates in 1980–82, following partly successful attempts to control inflation, and again a sharp rise in December 1983, a more moderate one in December 1984, and an even lower rise in December 1985, as compared with annual averages.[36]

The stabilisation programmes of 1978 and 1979, and even the more radical new economic policies since January 1980, have not produced any substantial results, at least in the short run, apart from renegotiation and partial rescheduling of foreign debts.[37] Political and social unrest caused, *inter alia*, a loss of more than 4 million work days in 1979.[38] None of the 13 government coalitions of the 1970s proved able to meet the economic and social challenges. On the contrary, they contributed to magnifying the problems.[39]

To prevent political disintegration and economic disaster, the military took over on 12 September 1980. The takeover was to have been consolidated by the new, authoritarian — though in principle committed to democracy — constitution of the end of 1982, which grants extensive prerogatives to the President, but repeatedly restates the principles of Atatürk — laicism, democracy and accountability of the authorities.[40] Despite the return to a parliamentary regime by the end of 1983, the military control and power behind the President's prerogatives have remained in force.

The problems which faced the military regime in the economic area were chiefly inflation, domestic and balance of payments deficits, the pressing external debt, in fact insolvency, shortages in food supply, unemployment and social inequality. These were accompanied by setbacks in real economic growth, on the heels of falling investments and lack of foreign exchange required for vital imports, maladjustment between galloping inflation and rates of interest artificially held low and in fact negative, which spurred credits and demand, pushing prices up.[41] The latter were only partly curbed by the shortly preceding stabilisation programmes of 1978 and 1979.

Following administrative measures and restraint in monetary policies, the rate of inflation was sharply reduced, 'at a stroke', from over 100 per cent in 1980, to an annual average of about 37 per cent in 1981 and further to 27 per cent in 1982. Simultaneously, a return to real growth was registered, though, with an increase of real GNP by some 4 per cent only in both 1981 and 1982, the *per capita* growth reached only 1.5–2 per cent. In regard to both disinflation and resumption of real growth, the years 1981 and 1982 undoubtedly registered a major achievement, and this seems to be in line with our preceding discussion on the theoretical premises of inflation, disinflation and growth. We shall digress briefly to take a look at the long-term correlation of these parameters, and then return to later developments in the course of the 1980s and the reasons for certain changes for the worse.

In view of the controversy over the correlation between inflation and growth, it is instructive to look at the long-term trends in Turkey's total and *per capita* real product.[42] Table 6.3 and Figure 6.1 reflect those changes *vis-à-vis* the inflationary trends.[43]

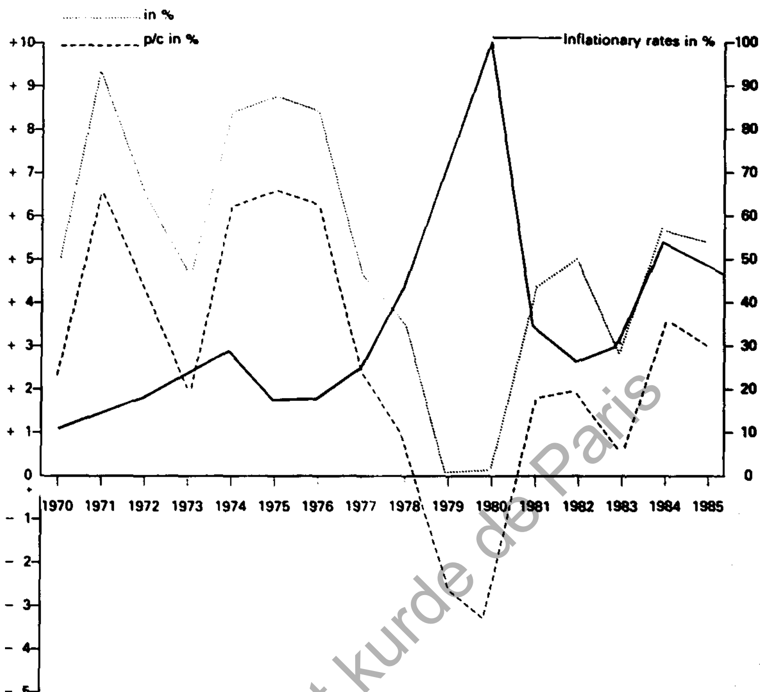
Table 6.3: Inflationary rates and percentage changes in total and *per capita* GNP, 1970–85 (in constant 1980 prices)

Year	*Inflationary rates*	*GNP*	*GNP per capita*
1970	11.9	4.9	2.4
1971	15.9	9.1	6.5
1972	18.0	6.6	4.1
1973	20.5	4.4	2.0
1974	28.9	8.5	6.0
1975	16.2	8.9	6.4
1976	16.1	7.9	5.3
1977	24.9	3.9	2.1
1978	43.8	2.9	0.8
1979	67.8	−0.4	−2.4
1980	107.2	−1.1	−3.1
1981	36.7	4.2	1.9
1982	27.0	4.4	2.0
1983	30.4	2.9	0.5
1984	50.3	5.7	3.5
1985	43.2	5.1	2.8

Sources: DİE (SIS) and Merkez Bankası Publications (see also cumulative table on p. 154).

With the exception of four years (1971, 1974, and then 1984 and 1985) which had positive correlations of rates of inflation and rates of growth, all the remaining eleven years show a clear negative correlation, and a distinct *negative* growth in the two years of highest inflation (1979 and 1980). This also confirms the stagflation concept for the case of Turkey and is closer to an

Figure 6.1: Changes in GNP, in GNP *per capita*, and inflationary trends, 1970–85



Source: Table 6.3.

inversion of the Japanese case, of relatively low inflationary rates combined with relatively significant real growth.[44]

Three other correlations, to be dealt with more extensively later on, should be mentioned briefly in the present context: namely, inflation and balance of payments, inflation and budget deficits, and inflation and unemployment.

Although the notorious year 1980 shows a very strong positive correlation between the size of the deficit on current account and the hyperinflationary rate, the long-term correlation is erratic and inconsistent. The mutual impact is not uniform. While rising imports (and, therefore, supplies) may have restrained price increases, they also intermittently infused into the economy imported inflation (most conspicuously, though not exclusively, the oil upsurge). Also, rising domestic prices unaccompanied by adequate and realistic adjustments in official exchange rates (until about 1979) certainly contributed to difficulties in exports and in foreign accounts.[45]

A positive correlation also exists, on the whole, between the budgetary deficits and inflationary rates, particularly in the period 1977–80, but as already indicated the cause–effect controversy in this regard is inconclusive.

Finally, the recently disputed negative correlation between inflation and unemployment has become of major relevance to the Turkish economy. Serious unemployment and falling real wages, following the positive slope of the non-Phillips curve,[46] undoubtedly influenced the socio-political events in the later 1970s, which finally led to the military take-over in 1980. However, the early 1980s, with their radical disinflationary policies, have shown — according to official data — increasing unemployment, of 15.6 per cent in 1982, 16.1 per cent in 1983, 16.5 per cent in 1984 and 16.7 per cent in 1985,[47] some sources even placing the figure for 1985 at between 18 and 19 per cent. It must also be noted that some sources exclude disguised unemployment in agriculture.[48] It would be out of place to apply to this period the Phillips' trade-off between inflation and unemployment. First, the relationship as a long-term phenomenon must be distinguished from one arising from controversial disinflationary strategies. Secondly, the repressed inflation of 1981 and 1982 started to erupt in 1983 and 1984, accompanied by rising unemployment. The latter, in conjunction with falling real wages, were part and parcel of disinflationary policies already adopted in 1980 and reinforced by anti-union legislation. Finally, the uncertain reliability of the unemployment data must always be remembered.

The stabilisation programme of 1980 has remained officially the corner-stone of ongoing disinflationary policies in Turkey. Its relative success in 1981 and 1982, chiefly induced by administrative and monetary measures, led to a strain on firms and domestic demand, though it stimulated exports. Wages in real terms, already markedly affected in 1979 and 1980, fell again, by 7.3 per cent in 1981, and rose only slightly by 1 per cent in 1982, and by 2.5 per cent in 1983. Thus in 1983 a certain relaxation in the form of steep nominal wage increases that were significant even in real terms,[49] and more lenient monetary policies were substituted for previous stringencies. The results were discouraging, to a large degree due to the undermined confidence that followed the many bank defaults. The expanded liquidity that was designed to eliminate bottlenecks and assist the banks, reduced interest rates and increased withdrawals for consumer expenditure again pushed inflation upwards at the end of 1983 and in the following year.

The overall performance of the economy had suffered by the end of 1983 in all areas of domestic and external activities, and the re-emerging inflationary upsurge was accompanied by a fall in the rate of real growth and a further increase of unemployment. An inflationary upturn of over 30 per cent was registered for the year and in 1984 the rate exceeded 50 per cent. The rate for 1985 was somewhat lower, at about 43 per cent, but still higher than in 1981–3. Internal terms of trade, to the disadvantage of agriculture versus the industrial sector, contributed to the more moderate rate of inflation in 1985 in comparison with 1984.

A distinctive change in the disinflationary strategies occurred on the heels of the parliamentary elections, at the end of 1983, which returned to power Turgut Özal, the temporarily dropped former 'economic czar', and this time in the capacity of Prime Minister. In his government programme presented to the Parliament on 19 December 1983[50] Özal analysed the difficulties up to the military take-over, praised the achievements of the stabilisation programme, started before and continued after the coup, under his own economic leadership, with particular stress on the sharp fall in the inflation rate, and put the blame for deterioration on his being temporarily out of office during the year 1983. An upward reversal in the inflationary trend and the failed attempt to achieve growth and export targets for that year motivated his new monetary, taxation and spending policies. These policies combined neo-classical and monetarist concepts with structuralist elements, with a not insignificant degree of centralism and interventionism, in a still largely etatist economy burdened with the SEEs and a bloated bureaucracy. This, in spite of Özal's pronounced adherence to minimal intervention and controls, provided that disinflation to the level of under 10 per cent should become the first economic and social aim.

Denials notwithstanding, in practice Özal sided with the monetarist approach to disinflation, based on the control of public spending and money supply on the one hand, and on a predominantly market economy integrated with the world economy, and liberalisation in domestic and external economic activities, on the other. This was also partially in response to requests made by international bodies, such as the IMF and OECD. The latter organisations stated at the time that the key to cutting back on inflation in 1984 lay in moderation in incomes policy, in strengthening incentives to save rather than consume, in cutting costs and upgrading efficiency in both private and public enterprises, in improving revenue collection — which continues to be deficient despite recent attempts to reform it — and in resisting claims for increases in public expenditure.[51] These measures should result, in the view of the OECD, in minimisation of inflationary expectations.

This is a typical 'classical' monetary cure devised for inflation-cursed economies. Leaving aside the fundamental disagreements and controversies among economists, this panacea contains inherent contradictions and distortions of the balance equation, and ignores or glosses over the issues of unemployment and inequality.[52] It renders the growth target vague, and delays the onset of structural transformation, which would not limit strategies to chiefly monetary devices and reliance on the market mechanism, but also embrace aggressive reallocation of resources for the sake of both growth and employment, and thus in the longer run defeat inflationary distortions and external and domestic imbalances. It is a complex and difficult task and we shall return to the subject in Chapter 7.

In fairness to the OECD it must be stressed that in the longer run, with regard to Turkey, it pays tribute to the structuralist approach, and requests structural changes through increased savings and investments, more balanced patterns of development, elimination of inefficiencies, especially in the SEEs, 'stabilisation' of unemployment, more attention to tourism and to attracting foreign investment.[53]

Although Turkey's economic leaders have been always aware of the importance of sustained real growth, the potential danger of moderate inflation degenerating into hyperinflation has caused them intermittently to focus their attention on monetary policies, and less on the misallocation of resources — the very roots *and* result of inflation — and its far-reaching economic and social implications.[54]

The stabilisation programme and policies of the 1980s did pay lip service to incomes policy and more equal distribution of the burden, but actually they concentrated on demand restrictions which tried to keep wage inflation below the rate of price inflation. Thus, the chief tool of disinflationary strategy has been a reduction in real wages, which has been accompanied by the accumulation of unemployment.

What has not changed substantially even in the 1980s is the traditional red tape, bureaucracy, cumbersome legislation and its enacting of an excessive number of decrees, in a non-stop outpouring, particularly regarding exports as well as imports.

Though imports were declared officially and generally free, subject, of course, to customs duties, in fact three lists of 670 items — various foods, textiles, raw materials, equipment and spare parts — remain dependent on licences.[55] Thus, practically, liberalisation has been significantly curbed and rendered largely ineffective by a plethora of regulations and clumsy bureaucracy.

Unsatisfactory financial and fiscal performances dominated taxation principles and administration. Main tax reforms, already attempted in the past, were resumed on a wider scale in 1985, on the basis of Law No. 3065 of November 1984. Value added tax was instituted on 1 January 1985 to replace indirect taxes on production, and taxes on sales, transportation, sugar, advertising and postal services, at a general rate of 10 per cent, though less on basic goods. Petroleum tax was set at 6 per cent and the lowest income tax scale was reduced from 30 per cent in 1984 to 25 per cent in 1985.[56] Returns for the year 1985 show that VAT contributed some 12.5 per cent to overall tax collection in that period, and this can be considered as success in such a short period of time. While corporation tax collection increased significantly (by 147 per cent in current terms), personal income tax revenues rose only slightly (14.4 per cent), which means that they actually fell in real terms, due to rebates on the one hand and an allegedly somewhat more equitable distribution of the tax burden on the other.[57] As will be shown, the effectiveness of the distribution of the tax burden was disproved by the final findings for the whole year 1985, which were different from the earlier estimates.

As from January 1985 export credits and exemptions from taxes and fees were replaced by the Resources Utilisation Support Fund, which subsidises actual exports (to the tune of 2–4 per cent) and investments with incentive certificates and specialised credits (7–20 per cent of the investment value). Some relief for import duties was introduced too.[58]

ASSESSMENT AND LESSONS

Turkey, though by definition a developing country, had her own individual path of development. This may be attributed to her economic-political system, in transition from an empire to a republic, and her determination to modernise, industrialise and grow rapidly. Torn as she is between Europe and Asia, Islam and secularism, etatism and liberalism, the search for national identity is undoubtedly a complicating factor, as are the traditional social stratification and emergence of new intellectual, economic and governing elites and strata.

In principle, however, the causes of Turkey's inflation, in particular in the more recent period, have been similar if not identical to those of other inflation-plagued economies. It was a mixture of cost and demand inflation. The first was characteristically reflected in the first oil-boom period. The second resulted from the 'total outlay' policies of certain periods (for example, under Menderes) which flooded the country with money supply largely designed for long-term infrastructural projects that were frequently economically inauspicious under the conditions of underdeveloped and under-utilised resources prevailing in the country. In the later period, demand inflation was further aggravated by the emergence of relatively strong unions defending, in 1978 and 1979, rigid money wages exceeding inflation and efficiency, *vis-à-vis* a net of public and even private monopolies.

Administrative and fiscal inefficiency, as reflected in red tape and a poor, inefficient tax system and collection, added to the other adverse factors, such as domestic and external deficits, largely stemming from extensive subsidies and, especially, the budget-linked SEE deficits, accumulation of national debt and the burden of annuities.

All in all, as elsewhere, the causes of Turkish inflation have been many, and the emphasis on exclusive or focal causes has largely arisen from the theoretical and/or political school of thinking of etatists, crypto-classical liberals, monetarists, structuralists, and 'home-made' neo-Keynesians. This, apart from purely political ideologies, which, again as elsewhere, have attributed the setbacks to the reigning socio-political regimes.

In general, Turkey's inflationary trends over the last 35 years have been in line with global trends, though on a higher curve for the most part; sometimes the effects have been delayed, in both the upward and downward directions, and more erratic.

The 1950s registered low inflation, on the whole, except for the 25 per cent in 1958. Then followed the period of relative price stability of the 1960s. Inflation subsequently fluctuated around 25–30 per cent until 1977, and then demonstrated a sharp upward trend from 1978, culminating in over 100 per cent in 1980.

There is a monetary-biased tendency to suggest the existence of a proportional relationship between money supply and prices. Some naive monetary models suggest a one-to-one proportion between the growth rates of money supply and inflation. The models were even applied to, though not borne out by, the Turkish case.[59] The traditional, and still widely promoted argument runs as follows. Increase in money supply exceeding the rate of real growth effects an excess demand for goods and services (compare pp. 91–98), which is partly offset, at least in the short run, by price increases. However, in the longer run both increase in money supply and excess demand are eroded by increases in supply, which should bring prices down.[60] This latter effect weakens the case of the monetarists and strengthens that of the neo-Keynesians (compare Meade) and anti-monetarist critics (compare Weintraub). Reduction in the rate of growth of money supply, as a stabilising measure, will not lower inflationary rates, but will lead to a fall in capital availability, in growth and in employment. If foodstuffs are imported in order to exert pressure on the inflated (de-subsidised) prices of domestic products, pressures on foreign exchange will soon result in less imports, in particular of intermediate and capital goods for industry, in bottlenecks in production, and growing obsolescence and inefficiency due to under-utilised capacity.[61]

Consequently, neo-Keynesians and structuralists focus their critique of the monetarist approach on two main points: first, lack of adequate consideration of output and growth; secondly, the differential sector responses. For instance, in contradiction to the past perception of agricultural production as inelastic to price changes, recent studies have shown its high sensitivity to relative prices, not only in cash crops but also in field crops, such as wheat.[62]

On the other hand, the structural model, which embraces money supply, prices, output and employment, cannot be a pure extrapolation of past or prevailing objective trends. It must also involve government behaviour and policies, which, therefore, should be included in any disinflation programme if it is not to lead to a deep recession or, eventually, to stagflation and slumpflation.

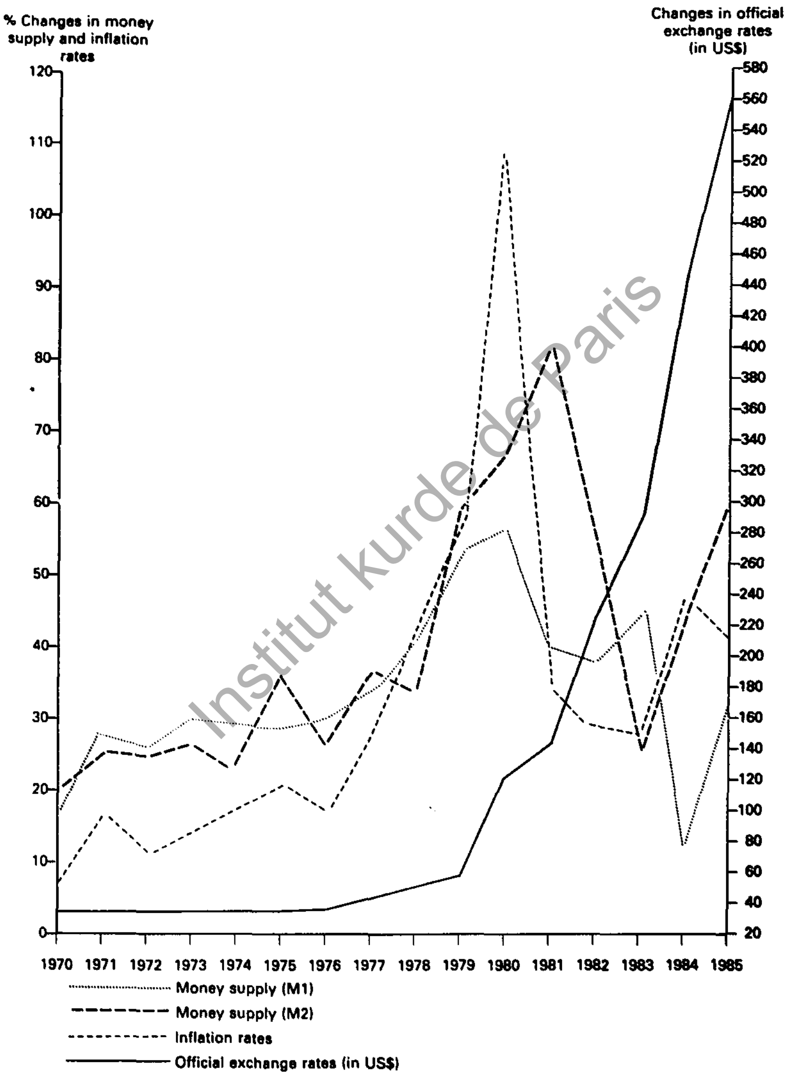
The relationship between money supply and inflationary trends cannot be denied, but it is hardly proportional and/or unitary; and, even more importantly, it is not necessarily unanimously agreed that the first is the cause of the latter. Figure 6.2, which, incidentally, shows a better correlation of inflationary trends with M2 than M1, under the conditions prevailing in Turkey, as already indicated above, in particular in the last decade, disproves the one-to-one theory and indicates that changes in money supply can also be an effect, albeit delayed, of inflation rather than its cause. In this regard 1974, 1975 and the critical period 1978–81 deserve closer attention, particularly in view of the exogenous impact of the oil boom in those years. We shall return later to the controversy between the monetarist and structuralist approaches in the Turkish context.

It is not easy to assess the results of the stabilisation policies, including the recent strategies ('the second stage') under the direct leadership of Turgut Özal. Despite their general liberal philosophy and the very comprehensive, ambitious and commendable economic and social objectives of the government programme of December 1983, the recurrent changes and legislation, and a great deal of pragmatism blur the picture and render appraisal difficult.

The mixed tight-money and partly indecisive liberal policies since 1983 have caused some observers to comment that these anti-inflationary policies have themselves become the cause of another inflationary upsurge, via deliberate price increases and high-exchange-rates measures.The Turkish lira, which by the end of 1983 stood at TL280 per US dollar, fell, as already indicated, to TL682 by June 1986, and to over TL1,000 by the end of 1987.[63] These drastic changes did have some impact on restraining imports and encouraging exports, but due to hesitant monetary, budgetary and fiscal policies, the export drive has not eased the pressure of domestic demand, while the overall policy measures deepened unemployment and widened the inequality gap.[64]

Even business circles, initially happy with the 'liberal approach', became sceptical about its effectiveness. Smaller companies were particularly badly hurt by the adverse effects, but even the bigger ones, especially contractor firms with business abroad, mainly in Libya, Iraq and Saudi Arabia, have

Figure 6.2: Annual changes in money supply (M1) and (M2), exchange rates (in US$), and rates of inflation (in consumer prices), 1970–85



Sources: Data in the text; IMF, International Financial Statistics; cumulative table on pp. 154–155.

suffered from slack oil business and payment delinquencies, while domestic market opportunities have shrunk or at least fluctuated on the heels of disinflationary constraints and outward-looking strategy. In the course of 1985 industrial entrepreneurs blamed the high cost of borrowing for the slump in investments. The reasons for this high cost lay in the public sector's competing for funds and the re-emergence of upward inflationary trends, which, according to private sector circles, was fed, *inter alia*, by arbitrary high pricing of monopolistic or quasi-monopolistic SEEs,[65] some of whose products were used as inputs by the private sector, which in turn passed the cost burden on to the public.

Low and even falling investments, accompanied and allegedly caused by higher interest rates, and the 100 per cent rise in electricity prices, eroded the relative stability of 1982 and undermined the already under-utilised capacity, which was largely dependent on imported inputs (raw materials, finished and semi-finished capital goods, and spare parts) and therefore on foreign exchange. The result was insufficient growth rates[66] and accumulating unemployment. The rise in interest rates, as reflected in the Central Bank's rates of discount — 50 per cent and more in the course of the years 1983 until 1986 — more or less kept pace with the rates of inflation, with a positive margin. While this helped to control consumer spending, it adversely affected business activity and the share of investments in GNP, and even more so in total available resources.[67]

Academic and professional critics, too, complain of too tight monetary policies, for causing on the one hand a widening of the distributional gap, and on the other hand for adversely influencing investment and growth, considered to be the only long-term structural solution to stagflation. With all the importance of infrastructural investments, whose deficiency adversely affects productivity and capacity utilisation, they have a less direct and immediate effect on output, and involve a considerable time-lag between the spending (and consecutive demand pressure) and the end of the long-term gestation period. Moreover, because of the large number of incomplete or completed but not yet utilised investments, in addition to the under-utilisation of capacity in existing plants, the incremental capital-output ratio (ICOR) is high (about 3.15), reflecting the less than satisfactory rate of growth.[68] The revival and efficient utilisation of 'dormant investments' is largely dependent on adequate credit facilities and interest rates. It is one of the various 'inflationary traps', if correct selective allocation is not properly administered.

An interesting aspect of inflation in general, and of Turkish inflation in particular, is its relation to savings. On the whole it is assumed that an unstable environment and inflationary expectations are hostile to savings and investments. On the other hand, textbook theory contends that propensity to save prevails in high-income strata, while in the low-income ones it is close to nil. If inflation works to the disadvantage of wage and salary recipients and in favour of non-fixed income (profit recipients), it should benefit savings and, presumably, investments. Some Turkish economists (for instance, T. Berksoy in his Boğazıcı seminar paper) make this point as relevant to differential inflationary periods.

However, three major qualifications should be made in this respect.

First, the more general assumption, that follows the well-known Engel theorem, is weakened by the also well-known, conspicuous consumption of the rich.

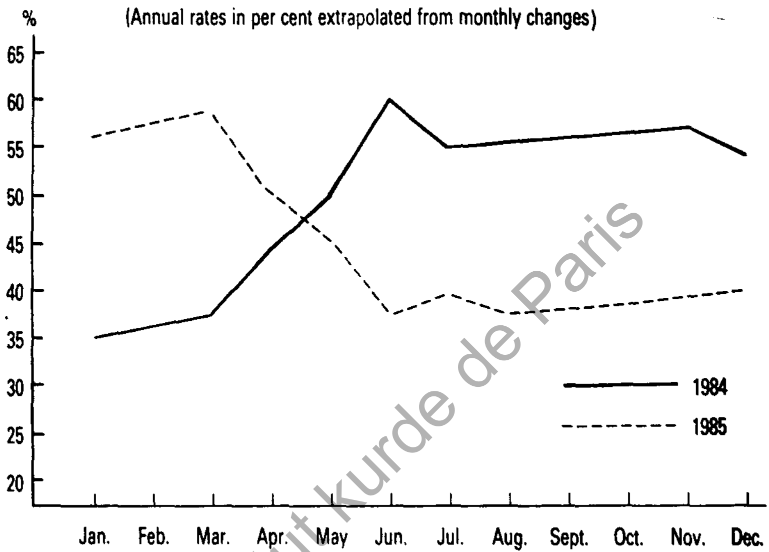
Secondly, under Turkish conditions, 'savings', frequently in the form of time deposits, have actually been liquid assets, vacillating between M1 and M2 and intermittently feeding inflation.[69] To the extent that the investment ratio in GNP increased, from about 17 per cent in the 1960s to about 24 per cent in the second half of the 1970s, the increase came from foreign 'savings' (that is, foreign borrowing), while domestic savings remained stagnant. Since 1977, the share of fixed investment in GNP has been falling steadily, with slight fluctuations, from 24.1 per cent in 1977 to 18.4 per cent in 1984 and a somewhat higher rate of 19.4 per cent in 1985. In addition, the share of investments in total available resources has been even lower, due to the savings-investment gap, officially reported as 3 per cent of GNP for 1984 and 2 per cent for 1985, which points, of course, to the budgetary and current accounts deficits, to be necessarily covered by short-term borrowing. This lagging behind of savings and investments, though in disparate proportions, results in slower growth in the longer run, thus leaving almost intact the structural causes of inflation, including inadequate savings and investment, coupled with unemployment.[70]

Thirdly, behind this whole 'neo-Engel' concept lies the growing income-distribution gap, with only partial compensation in index-linked economies, which are usually endowed with strong and active trade unions. Even in the 1970s period in Turkey, when nominal wages in manufacturing industry rose in line with, and sometimes even exceeded, price indices, the share of wage-earners in income only returned to that of the early 1960s rate. It must also be stressed that the number of employees in the manufacturing sector is still small and not representative of all wage-earners (and certainly not of self-employed or hired agricultural earners). Moreover, data on wages of insured workers, covered by social security, show that gross wages in real terms fell in 1985, as compared with 1984, by 8.8 per cent, and net wages by 10 per cent (an indication that taxation discriminated against these wage-earners). In comparison with 1980, real gross wages in 1985 were even lower, by 30 per cent, due to the continuous lagging of nominal wage increases behind the COL indices.[71] If there was in that period, as some contend, demand inflation, it certainly did not originate in those wage-earners. Instead, inequality became even greater.

Despite partly successful disinflationary measures in the 1980s, with an average downward trend from the peak in the critical year 1980, inflation has remained one of the focal issues of the Turkish economy, with domestic and international effects on, for instance, income distribution and welfare, investment and inventories, profits and savings and the structure of the foreign debt, in spite of some improvement in overall foreign accounts.[72] Stability of prices, wages and exchange rates has not been sustained. While there is on the whole a general agreement on the importance of streamlining fiscal and monetary policies, the private sector takes exception to the non-realistic pricing policies of the public sector, which, in its opinion, adversely influences free competition and therefore efficiency.[73]

Data on the first half of 1985 show for the months January–March an upward inflationary trend (in wholesale prices), parallel to that of 1984, though at the higher rate of 50 per cent as in the second half of 1984. However, while from March 1984 the curve continued to rise to about the 50 per cent level, it fell off sharply in the same period of 1985, to 37 per cent by the month of June, and fluctuated around this level in the following months, rising slightly towards the end of the year. The average wholesale price index for the whole year of 1985 was estimated at 43 per cent, but, significantly, the estimates of the increase in consumer prices appear to be higher (47.5 per cent and according to some sources 45 per cent), a trend different from that of 1983 and 1984, and resembling that of 1980 and 1982.[74] It certainly resulted, partly at least, from differential subsidies policies.

Figure 6.3: Wholesale price indices in 1984 and 1985



Already in December 1985 inflation was on a somewhat higher trend than in the previous months, and it climbed further in 1986. Data on consumer prices have been no less disturbing than those on wholesale prices, a matter of particular social consequence. The initial estimates extrapolated from the earlier months of 1986 for the whole year seemed relatively optimistic — 24.5 per cent — but later assessments have not sustained the prognosis and have suggested higher figures.[75] Thus, on the basis of the first half of 1986, and confirmation from partial returns for several later months, the average annual inflation for this year has been estimated at 34.5 per cent.[76] The particularly high rise in certain items, for instance, fodder, leather, textiles and construction materials, may induce an upward trend, over and above the estimated one,[77] but even then it will presumably be lower than in 1984, and possibly also less than in 1985. Government sources still believed that the overall rate of inflation in 1986 would not exceed 26–7 per cent, a figure rejected not only by business circles, but even by such official agencies as the State Institute of Statistics (DİE).[78]

It is premature, at the time of writing, to consider the average deceleration of inflation in 1985 and 1986, as compared with 1984, as a trend. It may be adversely influenced, *inter alia*, by the ongoing devaluation of the domestic currency.[79] On the other hand, a marked trend of rising public investments in 1986, dealt with in the final chapter, may contribute to better performance in the future.

NOTES

1. A certain neglect of the link between the theoretical background of inflation and the anti-inflationary strategies is noticeable in most publications of Turkish and other economists on various aspects of Turkish inflation. Remarkable exceptions are, among a few others, Hiç, Fry and Çubukçu. See Bibliography.

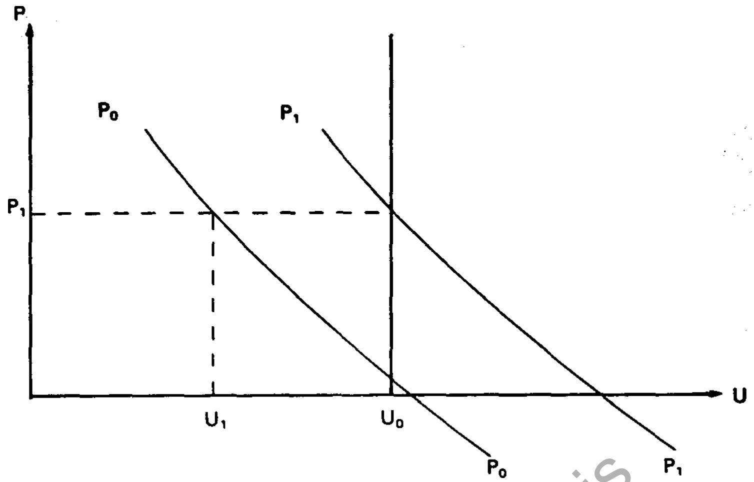
2. Compare A. Marshall, *Money, credit and commerce*, Macmillan and Co., London, 1923, *passim*. The very definition of money supply (as well as of liquidity) has undergone a serious transformation over the years. This is reflected in the discussion in the text.

3. Compare Alvin Hansen, *Monetary theory and fiscal policy*, McGraw-Hill, New York, Toronto, London, 1949.

4. See Sidney Weintraub, and his dissident views, in his *Our stagflation malaise*, Quorum Books, Westport, Connecticut, 1981.

5. Phyllis Deane, 'Inflation in history', in D. Heathfield (ed.), *Perspectives on inflation, models and policies*, Longman, London and New York, 1979, p. 1.

6. The Phillips argument is illustrated in the accompanying diagram. The argument runs as follows. Initially, with a 'natural rate of unemployment' and a zero rate of inflation, the economy is at point U_0. If government policies aim at a reduction of unemployment to point U_1 through an increase in money supply and in aggregate demand, this reduces unemployment for a short period to point U_1 and curve P_0–P_0, but soon leads to an upward shift of the curve to P_1–P_1, and thus to a return to the long-term vertical Phillips curve. Compare A.W. Phillips, 'The relation between unemployment and the rate of change of money wage rates in the United Kingdom, 1861–1957', *Economica*, New Series, vol. xxv, no. 100, November 1958; and J.D. Byers, 'Inflation and the labour market', in D.F. Heathfield (ed.), *Perspectives on inflation, models and policies*, Longman, 1979, p. 102.



7. As a matter of fact, Friedman himself revised, in this respect, the traditional monetarist concept even earlier than his own followers. Compare M. Friedman, 'The role of monetary policy', *American Economic Review*, vol. 18, 1968, pp. 1–17; and his 'Nobel lecture: inflation and unemployment', *Journal of Political Economy*, vol. 85, no. 3, June 1977, pp. 451–5. See also R.E. Lucas Jr, 'Expectations and the neutrality of money', *Journal of Economic Theory*, vol. 4, 1972, pp. 103–24, and E.S. Phelps (ed.), *Micro-economic foundations of employment and inflation theory*, Norton, New York, 1970, chapter on 'Money wage dynamics and labor market equilibrium'.

8. See Orhan Morgil's paper for the International Seminar on Inflation in Turkey, February 1979. See also L. Robbins, in R. Hinshaw (ed.), *Stagflation, an international problem*, 1977, p. 11.

9. In the Turkish case, discussed later in detail, there is a strong tendency (by Okyar, Morgil, and also OECD surveys) to attribute the upward inflationary trend of the early 1970s to the 66 per cent devaluation in August 1970 and the resulting rapid increase in money supply.

10. S. Weintraub, *Our stagflation malaise*, pp. 25–30.

11. Compare Randall Hinshaw (ed.), *Stagflation, an international problem*, 1977, p. vii.

12. Compare Haberler's and Laffer's papers in Hinshaw, 1977, *passim*.

13. In 1974, the OECD countries, which in 1973 registered a surplus of \$12 billion on current account, faced a deficit of \$30 billion; and an even higher deficit of nearly \$37 billion confronted the non-oil, less developed countries. The OPEC surpluses amounted in 1974 to \$60 billion. However, the estimates of sky-rocketing OPEC surpluses of \$250–325 billion *per annum* for the 1980s proved wrong, with the onset

of the oil glut. With the industrial countries' account almost balanced by 1983 (only \$1.2 billion deficit, chiefly due to the US deficit of \$34.3 billion not being fully balanced by mainly Japanese surpluses), the non-oil LDCs faced the dangerous deficit figure of \$82 billion in 1980, and even in 1983 they still faced a deficit of \$56.4 billion, and the linkage effects on their economies. As for the oil countries, while in 1980 they still registered an impressive surplus of \$111 billion, already by 1983 they faced an aggregate annual deficit of \$16 billion. In most LDCs stagnation took over, while the DCs showed improvement in production and partly in employment, and a significant fall in inflation rates. Compare United Nations, *World economic survey*, 1980/81, p. 4 and *passim*; World Bank, *Annual reports 1980 and 1981*; Hinshaw, p. 80; IMF, *World economic outlook*, March 1984.

14. Weintraub, *Our stagflation malaise*, p. 81.

15. Friedman defines the 'natural rate of unemployment' as depending on the effectiveness of the labour markets, the extent of competition or monopoly, the barriers or encouragements to working in various occupations, etc. Compare M. Friedman, 'Nobel lecture: inflation and unemployment', *Journal of Political Economy*, June 1977, p. 458. These are, of course, conditions, rather than a definition of the 'natural rate'.

16. Textbooks do not give all the answers, as two distinguished economists have noted. One is James Meade, who repeatedly expressed his desire to have on his grave an epitaph that would show that all his life he tried to be a good economist, but somehow common sense always crept in. The other is Milton Friedman who quotes Pierre S. du Pont, a deputy from Nemours to the French National Assembly, who said on 25 September 1970, 'Bad logicians have committed more involuntary crimes than bad men have done intentionally.' Compare M. Friedman, 'Nobel lecture', 1977, p. 471. Hansen, pp. 150 ff., points out that, historically, inflationary booms have not been halted necessarily by checking money supply. Even where certain post-First and Second World War hyperinflations were controlled by drastic cuts in money supply, this measure cannot be considered the exclusive tool, on account of other factors inherent in excessive expansion, such as the investment-savings ratios, changes in inventory, or supply-demand ratios. Thus real factors, rather than monetary ones, explain the upward and downward trends in prices.

17. J.E. Meade, *Stagflation*, vol. 1, *Wage fixing*, 1982, Preface.

18. Ibid., p. 9.

19. Ibid., p. 34.

20. M. Friedman, 'Nobel lecture', p. 459.

21. IMF, *IFS*, March 1984, and OECD, *Main economic indicators*, February 1984. The case of Japan in the recent five-year period shows that enjoying the lowest rate of inflation among the DCs (for example, 1.8 per cent in 1982) does not preclude retaining one of the highest real growth rates (3 per cent) and the lowest rate of unemployment (2.4 per cent of the labour force), along with greatest job safety. See OECD, *Main economic indicators*, 1983. In view of the basic strength of the Japanese economy, it is premature to draw less optimistic conclusions

from certain recent adverse indicators of that economy.

22. Compare W. Beckerman and T. Jenkinson, 'What stopped the inflation? Unemployment or commodity prices?', *Economic Journal*, vol. 96, March 1986, p. 39.

23. S. Weintraub, *Our stagflation malaise*, p. 31.

24. A.M. Okun, *The political economy of prosperity*, 1970, p. 137.

25. S. Weintraub, *Our stagflation malaise*, p. xiv and *passim*.

26. This process should not interfere with an early and serious effort to check government prodigality and inefficiency.

27. T. Sargent, 'The end of four big inflations', in R.E. Hall (ed.), *Inflation, causes and effects*, 1982, pp. 388–433.

28. J. Tobin, 'Inflation and unemployment', *American Economic Review*, vol. lxii, no. 1, 1972, p. 17.

29. Ibid., pp. 10 and 16.

30. O. Okyar in his paper 'Political aspects of inflation in Turkey', submitted to the international Seminar on Inflation, at the Boğazıcı University in February 1970. See also his 'Inflation and political democracy in Turkey, 1923–1978', in *Dış Politika (Foreign Policy)*, Ankara, 1979, vol. 8, nos. 1–2, pp. 60–78.

31. Compare Hershlag, *Turkey, the challenge of growth*, Brill, Leiden, 1968, especially pp. 196–7 and Tables 18–22.

32. For the Phillips curve, see pp. 91–98, and footnotes 6 and 7, above.

33. See Merkez Bankası, *Report*, March 1975.

34. See Chapter 5.

35. OECD, *Economic surveys*, April 1983 and June 1985; SIS, *Wholesale and consumer prices indices*, April 1985; İş Bankası, *Reviews of economic conditions*, quarterly publications; *İstatistik Yıllığı*, 1985, pp. 385–6.

36. Merkez Bankası, 1983; SIS, 1984 and 1985.

37. See Tüsiad, *The Turkish economy 1980*, pp. 35 ff.

38. Compare M. Hiç, *Recent developments in the Turkish economy*, mimeograph, n.d.; and İş Bankası, *Economic indicators of Turkey 1977–81*. Sources differ widely with regard to work days lost through strikes and lock-outs, and it is difficult to reconstruct the true data.

39. See B. Berberoğlu, *Turkey in crisis*, 1982, pp. 107–9.

40. See in particular Articles 65 ff. and Articles 103 and 104 in *The constitution of the Republic of Turkey*, 1982. It is also instructive to learn that the new constitution explicitly provides for the preservation of Atatürk's reform laws of the years 1924, 1925, 1926 and 1934, which dealt with the securing of the secular, cultural and educational objectives of a country set on modernisation. Ibid., Article 174.

41. OECD, *Economic survey: Turkey*, Paris, 1980, and *World Bank report 1980*, p. 53.

42. Since incremental capital-output ratio (ICOR) increased in the course of time (in 1963–7 2.3; in 1968–72 2.6; in 1973–83 3.8), main growth in those later periods (except, of course, for the years of negative growth) should be attributed chiefly to higher (though less than desirable) volumes of investment (16 per cent, 17.8 per cent, 19.8 per cent of GNP, respectively), thanks to the influx of additional funds

from abroad and not to improved efficiency (apart from a few years of improved capacity utilisation). See Tüsiad, *The Turkish economy 1983*, p. iv.

43. Calculated from DİE, Merkez Bankası, and Tüsiad sources.

44. For sources of data and Figure 6.1, see our tables, and DİE, 1983, and Tüsiad, 1983 to 1985.

45. Compare cumulative table on p. 154.

46. In the literature too the positive curve is called, somewhat misleadingly, 'the Phillips upward curve'. See, *inter alia*, Maxwell J. Fry's papers for the American Economic Association's meeting in Chicago and for the Boğazıcı seminar on inflation in 1979.

47. Merkez Bankası, *The Republic of Turkey*, March 1985, p. 10, and Tüsiad, 1986, *passim*.

48. Compare Merkez Bankası, *Annual report*, 1983; DPT (SPO) sources; İş Bankası, 1973–83.

49. Although wholesale prices are more reliable and more indicative for the Turkish macro performance, the COL indices (as far as available) must be applied if wages in real terms are to be estimated. Attempts to arrive at weighted averages for the whole country have shown average annual increases of the COL index of 5.9 per cent for the 1961–70 period, 33.8 per cent for the 1971–81 period, 32.7 per cent for 1982, 28.8 per cent for 1983, 45 per cent for 1984, and 54.6 per cent for the twelve months March 1984–February 1985. The rates of increase for Istanbul and Ankara are higher than the country averages (and also more reliable). Compare Tüsiad, 1983 and 1986; OECD, *Economic outlook*, June 1983, p. 46.

50. Government programme, 19 December 1983, Ankara, *passim*.

51. OECD, *Economic survey: Turkey*, 1984, pp. 39–40.

52. Expectations in this regard, following temporary stringencies, were not borne out even in Western Europe, endowed as it is with infrastructure and rich resources.

53. OECD, *Economic survey: Turkey*, 1984, and *Economic outlook*, June 1985, pp. 124–5.

54. Compare Ch. Wolf, *Turkish development prospects and policies in light of experience elsewhere*, January 1980, p. 8 and *passim*.

55. Merkez Bankası, *The Republic of Turkey*, 1985, p. 30.

56. Ibid., p. 16, and *Economic report 1984*, p. 168.

57. Tüsiad, 1985, p. 127. Further scrutiny of the respective income groups is still required in regard to the tax burden, in view of the high Gini coefficient, as shown in the section dealing with income distribution.

58. İş Bankası, 1984/IV.

59. Compare M. Aksoy, *Structural aspects of Turkish inflation, 1950–1979, passim*; A. Harberger, 'The dynamics of inflation in Chile', in C. Christ (ed.), *Measurement in economics*, Stanford, 1963; and H. Kızılyallı, *Türkiye Ekonomisindeki Gelişmelerin Parasal Faktorlerle Açıklanması*, Boğazıcı University Publications, 1978.

60. Neo-monetarist models do distinguish between expected and unexpected changes in money supply and their impact on consumption,

savings and the interaction between money and output, but still leave the true and full causes of price rises unexplained.

61. Compare, *inter alia*, M.A. Aksoy, *Structural aspects of Turkish inflation*, pp. 2–3.

62. Studies of K. Samuel, A.A. Gurkan, C. Ekmekcioğlu, H. Kasnakoğlu and S. Imrakoğlu, quoted by Aksoy.

63. IMF, *IFS*, August 1986.

64. Views of some participants of the Ankara seminar in June 1985. See also DİE, *Aylık Ekonomik Göstergeler*, April 1986; *OECD Observer*, no. 139, Paris, March 1986.

65. Tüsiad, 1985, p. 18.

66. The figure was 2.9 per cent in 1983 and, despite a certain improvement to 5.7 per cent in 1984, the year 1985 again registered a slight fall to 5.1 per cent.

67. Ministry of Commerce and SIS sources; IMF, *IFS*, June 1986; UN, *Monthly Bulletin of Statistics*, July 1986.

68. See Tüsiad, 1985, p. 17.

69. A Tüsiad study, based on statistical data in the period January 1983–March 1984, found a much closer relationship between inflation (as represented by wholesale prices indices) and M2 than between the former and M1. In the first, R^2 (coefficient of determination) = .982, while in the second, R^2 = .321. Compare Tüsiad, 1985, p. 61.

70. Figures on savings and investment derive from SPO data, generally confirmed by other sources as well. Following the drop in public savings, a continuous fall was registered in public investments from 14.2 per cent of GNP in 1981, to 12 per cent in 1982, 11.3 per cent in 1983, and less than 11 per cent in 1984 and 1985. Private investments fluctuated recently around 9 per cent of GNP.

71. Tüsiad, 1986, pp. vi and 47 ff.

72. Ibid., pp. iii and 7.

73. Tüsiad, 1985, p. xi.

74. Compare OECD, *Economic outlook*, 40, December 1986.

75. SIS sources.

76. The half-year estimate submitted by the government department has been corroborated by SIS and the Istanbul Chamber of Commerce. The OECD reports a 34.5 per cent increase in consumer prices for the twelve-month period ending August 1986. Compare OECD, *Main economic indicators*, November 1986.

77. İş Bankası, *Review of economic conditions*, 1985/II, April–June 1985, p. 8, and, 1985/III, July–September 1985, p. 12; OECD, *Main economic indicators*, Paris, 1986, Historical Statistics, p. 16.

78. Istanbul Sanayi Odası, *1986 Yılı İlk Yarısında Türkiye Ekonomisi*, Ekim, 1986, p. 131.

79. For latest developments see Postscript, below.

7

Turkey's Economic Options

CORRELATION OF SHORT-TERM POLICIES AND LONG-TERM STRATEGIES

Turkey is not the only country faced with the problem of choosing between the alternatives of planning and free enterprise, liberalism and interventionism (or, *dirigisme*), inward- and outward-orientation, growth and equity. The problem is further complicated by the fact that the complexity of issues is magnified under conditions of inflation, accompanied by decelerated or even negative growth (that is, stagflation or slumpflation), and the danger that disinflationary policies may deepen distress, unemployment and inequality. Traditional and new ideological concepts mix with pragmatic considerations, and clashes of interests, of socio-political and economic targets, of short-term requirements and long-term strategies, are unavoidable.

Despite many past and current predicaments, the spirit of democracy and progress has become more deeply ensconced in republican Turkey than may appear on the surface, even though the warrantable 'pains of growth' are accompanied by the more controversial 'pains of the democratic process'. The cure to both kinds of pain is not within easy reach, but the country has immense overt and latent potentials, physical as well as human, which render feasible the achievement of the desired economic and socio-political transformation.

Every economy faces the dichotomy of the immediate socio-economic needs and pressures conducive to short-term economic policies on the one hand, and of the required structural changes and objectives conducive to medium- and long-term strategies and planning on the other.

The ingredients of short-term, medium-term and long-term policies and strategies can be identified up to a point. Public budgeting, anti-inflationary (or, eventually, anti-deflationary) policies, monetary and currency measures, and corrective social adjustments, belong to the first, short-term category. Balancing the resources equation, equilibrating foreign accounts, attracting investments and supporting savings, preserving, at least, decent living standards, and fighting red tape and inefficiencies pertain to the second, medium-term category. Restructuring of the economy and of sectoral production and employment, securing sustained economic growth, along with optimisation of employment and equity, and fuller integration of the domestic economy in the international community are mainly the tasks of long-term strategies.

However, as in the Rostovian theory of stages, it is easier to identify formally the salient elements of each strategical period (or stage) than to separate them from each other and, accordingly, work out self-contained, independent models. Most of the ingredients qualified as belonging to a particular 'time-strategy', overstep the imposed limitations, overlap each other, and constitute strong linkages favourably or adversely affecting the 'other' time-strategy. An attempt to formalise and apply rigidly these partly overlapping categories, whether in comprehensive or in partial models, may easily lead to potential distortions in the resources equation; for example, a possible clash between growth and equity in the long-term model; or between equilibrium in internal and external balances and wages and living standards in the medium term; or between anti-inflationary measures and social adjustments in carrying out economic policies in the shorter run.

Clashes between the three category-stages themselves may also easily arise. Greater economic and managerial efficiency and ingenuity, though of paramount importance, are not a sufficient safeguard, in face of the large number of influential exogenous factors. Moreover, because of the strong linkages and interdependence between them, the relatively easy formal differentiation between the long-, medium-, and short-term models and strategies is less neatly reflected in economic realities.

The policies initiated by Özal already before the military take-over, their survival, despite deviations, under the military regime, and the re-emergence of Özal in a hinging political and economic capacity after the elections of November 1983, indicate a trend of turning short-term policies into a long-term strategy leaning on market forces, outward orientation and stabilisation measures mitigating inflationary distortions.

In the course of 1984, new measures were published in the *Resmi Gazete* (Official Gazette), radically liberalising the economic policies. Restrictions on foreign exchange and travel abroad were largely removed; many limitations on imports were lifted; the Turkish lira was significantly devalued in terms of all foreign currencies and based on a floating rate to be announced daily by the Central Bank; finally, prices went up accordingly, in the hope that they would stabilise at the higher level in the longer run.

To keep bank lending interest rates positive (in relation to inflation), they were set in the mid-1980s together with tax, at 65 per cent (in 1981/2 36–8 per cent, and in 1983 32–4 per cent), and with additional expenses the cost of money in current terms reached 80–90 per cent. Dollar loans were even more expensive, at an estimated 92 per cent, if calculated in terms of Turkish currency. The liquidity ratios of the banks were raised from 10 to 15 per cent, and penalties for deficiencies were increased.[1]

All this has led to lower investments and higher unemployment. The authorities refrain from encouraging lower interest rates from fear of inflationary repercussions, particularly of the possibility of cheaper loans feeding consumer spending, which had been curbed by continuous rounds of price increases, including basic foods, such as flour and bread, and fuel.[2] On the other hand, higher (positive) interest rates reinforced inflation by pushing prices up (apart from their adverse effects on business) and the government itself has contributed to inflation through the 55 per cent tax-free interest (somewhat reduced recently) offered on Treasury short-term bond issues to relieve the budgetary deficit pressure.[3] We shall return to this subject in Chapter 8.

There is also an indication that since the rather short-lived, genuine stabilisation, the Phillips curve has assumed an upward trend, which means that, instead of 'trade-off', inflationary trends have gained momentum along with growing unemployment. The latter, which has been partly checked since the military takeover, by controlling wages but prohibiting dismissals, has nevertheless been on the increase, as mentioned above due to business failures and bankruptcies, and because of new jobs falling short of incremental labour force. The rapid urbanisation, which led to a significant shift from 'productive' sectors to services, has posed serious problems. While in the past the demand for labour in services was on an increasing scale (in almost all national economies), at present the electronic chip is also able to replace the human mental functions (integrated into the wide concept of 'services'). This increases the danger of involuntary unemployment and, consequently, of greater inequality, even though in the LDCs it is still less acute than in the DCs.[4] On the other hand, highly computerised economies, such as Japan, have shown so far the lowest rate of unemployment along with the greatest job security. Re-training, new activities and new jobs may assuage the 'computerisation menace', but these lines of action also depend on the degree of stability of the economy.

Inflationary expectations, a mixture of economic reasoning and psychological attitudes, though usually based on extrapolated past trends, are of paramount importance. They can be either checked or enhanced by the volume *and* quality of foreign exchange available and its utilisation, thus creating the unassailable bridge between inflation and external accounts. Theoretical analysis and a number of important empirical cases confirm the hypothesis that stability is conducive to savings and unrequited transfers, and stimulates efficiency and growth, as well as employment. In the final analysis, sustained stability expectations of investors overrule short-term high-profit inflationary expectations.

The paramount issue is, of course, how to create, ensure and sustain price stability, in the context of the resources equation balance, which actually is equivalent to achieving the dreamed of but hardly ever attained equilibrium (in any economy, DCs as well as LDCs), or, at least, to approach it as closely as possible, which some economies have achieved.

Here various versions of supply-side economics, classical and neo-classical concepts, or neo-Keynesian views may be applicable, with greater or lesser success, in the shorter or in the longer run.

In the shorter run, which is of focal and immediate importance to economies plagued by runaway inflation, the controversy becomes more acute, and it has, of course, bearing on the long-term prospects. It is agreed on the whole, that wage and price controls, even if associated with cuts in public expenditure and deficits, can be short-lived only, and, if not combined with supplementary growth-oriented measures, they usually turn suppressed inflation into a time bomb, which may explode sooner or later and confront the economy with more dangerous trends of re-emerging hyperinflation, associated with falling output and growing unemployment due to returning instability.

In the longer run, in a country like Turkey, a *structural reshaping of the economy and sustained real growth of product and employment* offer the safest solution. This approach is reflected, albeit insufficiently, in recent Turkish planning.

THE NEW FACET OF PLANNING

Select details and targets of recent planning have been indicated in our discussion of the major sectors in Chapter 4. The focus here is on more general, theoretical and macro aspects of Turkish planning.

During the whole history of republican Turkey, repeated attempts have been made to co-ordinate economic policies and strategies, by using instruments of annual government and national budgeting, five-year plans, and long-term (15- or even 22-year) programmes, within the general framework of initially mandatory and later on indicative planning. Particularly in the more recent projections, the social aspects, accentuated by the inflationary upheaval and growing unemployment and inequality, have become more prominent than in the past. The test will be, of course, in the process of implementation.

Controversy over the beneficial and adverse aspects of central planning as the chief instrument of rapid development is not confined to Turkey alone. Despite setbacks suffered by capitalist market economies during recurrent troughs in business cycles and, in particular, during the great depression, the champions of the market mechanism insist not only on the socio-political advantages of liberalism and free enterprise, but also on the empirically supported economic benefits to be derived from the market system in the longer run. The LDCs, however, launched their development efforts from a starting point, very different from and much more backward than the DCs at their initial take-off. Consequently, many Western economists, too, believed, mainly in the 1950s and 1960s, that central planning in the LDCs was indispensible for the rational and most efficient utilisation of poor and underdeveloped resources.

Turkey, which was in fact the first among the LDCs to adopt central planning, for reasons explained earlier, has returned to the planning concept since the 1960s. Though she gradually passed from the concept of more rigid to indicative planning, as did many other countries, in an attempt to escape the inefficiencies and rigidity of central decision-making and allow more room for market forces and price mechanism, the planning framework continues to appeal to her economic strategists. The favourable aspects of planning have not lost their power; among them: the wider time horizon, which links policies with strategies; better designed and streamlined investments; setting national priorities and, accordingly, more rational allocation of scarce resources.[5]

Throughout most of Turkey's development plans, in the 1930s as well as from the 1960s on, the planning strategies were essentially growth-oriented. The poverty-, or basic-needs-, or employment-oriented strategies, which came to the fore in particular in the context of the concept of the New International Economic Order (NIEO) in the last two decades were not embraced by the Turkish planners. Even the 1985–9 fifth five-year plan, which lists among its objectives fuller employment as well as fighting extreme inequality,[6] is still conceptually growth-oriented, out of implicit belief in the 'trickling-down' theory. In the shorter run, the ills of stagflation seem to justify the growth-oriented policies, which might also be able to offer better employment opportunities. However, in the longer run, in a high-technology environment bent on efficiency and profits, and in a mixed, traditional and class-structured society, a genuinely more integrated socio-economic strategy is required. Among the three options mentioned, and to avoid the possibly self-contradicting model (involving the danger of distortions in the resources equation), the employment-oriented strategy may hold the best promise of a durable development in a country abounding in under-utilised human resources, on the one hand, and in poverty, inequalities and overt or latent social conflicts, on the other hand.

In spite of the already indicated recent inclination to a free market economy, Turkey continues to uphold the planning strategy as a guiding principle, though in the more flexible form of indicative planning. Thus Turkey adopted the view that by abiding by the rules of the economic game, pertinent to a market economy, the clashes between bureaucratic decisions and the actual working of the market mechanism can be avoided. The indicative planning emerging from this approach is characterised by a number of components: projecting, but not arbitrarily imposing, preferable long-term targets; genuine extrapolation of prevailing trends; compatibility with feasible distribution of the nation's wealth; streamlining of investments and their rate as the strategic variable of the model adjusted to a realistic incremental capital-output ratio (ICOR); and, finally, flexibility in the co-ordination and implementation process.

This process is to be carried out through decentralisation of physical planning and settlement decisions, delegating more powers to the municipalities, assisted by a larger share of the public budget (11 instead of 3 per cent), and granting them the authority to collect wealth taxes. Also, the Privatisation Law of May 1985 was designed to support the more market-oriented concept of planning and development.[7] In fact, decentralisation and delegation of authority and tasks to the municipalities, aimed at a reduction of red tape and bureaucracy, has recently been harshly criticised and held responsible for precisely opposite outcomes that contradict the declared policies and targets. Administratively, this decentralisation has resulted in more paperwork and bottlenecks; financially, it has given the less efficient and inexperienced municipalities the opportunity to disburse rather indiscriminately 'easy' money infused by the central government (not necessarily from genuine revenues).[8]

Thus the planning mechanism was retained, but it was released from the strict and rigid bonds of mandatory centralistic planning, which never did work smoothly, and had become detached from the ideological spirit of the 1930s. The SPO still performs important statistical, analytical and programming tasks. Özal, while defending in his programme the principle of planning, dissociated himself from the rigid concept, and instead emphasised its 'regulatory, guiding and balancing' character.[9]

In July 1984, the fifth five-year development plan for 1985–9 was published,[10] and a detailed annual programme for 1985 was announced in October 1984. This recent five-year plan was considered mandatory for the public sector, and indicative only for the private one.[11] The plan forecasts a general equilibrium of the economy, according to which the gradually increasing growth of GNP will end up by 1989 with a mean average annual rate of 6.29 per cent, thus compensating for the fall in foreign deficits (that is, in influx of foreign funds) by (–)4.15 per cent and still rendering possible an annual rise in total resources by 6.09 per cent.

With a ratio of over 20 per cent of capital investment in GNP, a capital-output ratio of about 3 seems feasible, in particular if better utilisation of capacity also takes place, and if rates of increase in both public and private consumption (5.27 per cent and 5.5 per cent, respectively), are kept below the rise in GNP, as forecasted by the plan.[12] This, of course, still leaves open the issue of income distribution and the wide inequality gap, to be discussed below. Moreover, the empirical findings for the first half of the 1980s show a rate of capital investment (18–19 per cent of GNP) falling short of the planned rate (20–21 per cent), and a similar danger faces the fifth plan. True, in 1984, for instance, real growth was the highest since the later 1970s, but this can be explained by the delayed effects of somewhat higher 1983 investments, and better utilisation of capacity, which is, of course, of utmost importance. Still, the possible delayed effects of investments lower than envisaged may have an adverse impact on the growth process.[13]

The planned and expected ICOR of about 3 did not materialise in the first quinquennium of the 1980s. With an average annual growth of 4.6 per cent, and investments of about 19 per cent of GNP, the ICOR stood at 4.1 per cent and in certain years even higher. To achieve a growth target of 7 per cent, as requested by industrial circles (see note 37), either the rate of investments must increase or the utilisation of installed and new capacity should improve. Both options are feasible provided adequate strategies are implemented.

The basic objectives of the plan were stated as: stable growth at an annual rate of 6.3 per cent, increased welfare, full employment of factors of production, increase of domestic savings, exports rising at an average annual rate of 10.6 per cent versus a projected annual rise of imports of 8.2 per cent, redistribution of income and better control of inflation (set, for instance, at 25 per cent for 1985).[14] Though the plan rightly suggests a rate of public and private consumption *below* the rate of real growth, the margin is too small and may be easily eroded. Account must also be taken of the fact that investment growth usually involves a time-lag of maturation and of the test of efficiency of investment, and the rather high planned rate itself, of 8.42 per cent, must be treated with reservations.

It is an intrinsic requirement of planning to avoid clashing and conflicting targets and parameters. This is particularly true, when, as in Turkey, and everywhere else for that matter, inflation is only one aspect of the economy, albeit a very focal one. Thus, for instance, the simultaneous objectives of significantly expanding exports and fighting inflation, designed to boost growth via foreign markets while avoiding domestic demand pressures, may prove contradictory if the model does not succeed in eliminating distortions in the allocation of resources.

The structuralist approach in the Turkish case derives from the complex of causes of Turkish inflation, such as supply inelasticity, lack of foreign exchange and external imbalances, frequent devaluations, imported inflation resulting in higher costs and, last but not least, deficit financing, either as a cause or result of inflation gaining momentum.[15]

This leads to the requirement of a comprehensive model for fighting inflation through an aggregate of labour, profits, money, goods and services markets, as participating factors in the inflationary and eventually disinflationary process. The fifth five-year plan suggests a medium-term strategy which can be intepreted as a policy of rather gradual disinflation, in order to avoid the economic and social shocks experienced since the launching of the stabilisation programme.[16]

What may support the long-term hypothesis and the structuralist versus the monetarist concept is the ongoing though still slow structural change in Turkey's economy and society. The rate of population growth is going down. The rate of urbanisation, which was rather rapid and in the past created many problems, continues but at a slower pace. Even so, the share of urban in total population will probably continue to increase, possibly to a proportion higher than the 52 per cent envisaged by the plan for 1989.[17]

The previously mentioned initial returns of the 1985 official census submitted a figure of 53 per cent of urban population for that year. The already begun restructuring of exports may also have a favourable influence on the terms of trade in the future. A similar impact may come from expanding agro-industry (one of the structural changes), which may cause increased disguised unemployment in rural areas, to be eventually absorbed by greater utilisation of capacity and re-location of industry, employment-generating investment,[18] training and re-training, and tax incentives, in particular for the country's youth (that is, incremental labour power).[19]

The widespread notion of inefficiency resulting, apart from technological shortcomings, from mismanagement, overstaffing and disguised unemployment (also in industry), deserves to be treated with greater caution than is usually exercised. Various calculations have shown that to produce one ton of steel an average of five man/hours were required in the United States, seven man/hours in Western Europe, and in Turkey (at the Iskenderun mill) 72 man/hours. Other figures for 'man/hours per one ton of steel shipped' show low figures for Japan (7.3) and the United States (7.7), and a higher rate for the United Kingdom (16.5). However, employment costs per one net ton shipped were highest for the United States ($114.10) and lowest for Japan ($71.46). The explanation rests with the employment cost per hour: $14.73 in the United States, $9.86 in Japan and $5.83 in the United Kingdom. Thus the United Kingdom can be quite competitive despite many man/hours per ton. In principle this applies to Turkey too, though here the man/hours and employment costs combined make for an insufficiently competitive product (apart from quality considerations).[20]

A number of measures have been taken to improve the implementation of the new planning strategies. For the sake of better co-ordination, a ministry for public building and housing was set up to replace two previously existing separate ministries. A national housing authority was set up, outside the consolidated budget. An English–Italian–Japanese Consortium (STFA) was created to finance and execute the projects for the second Bosphorus Bridge, a new motorway and other infrastructure at a cost of US$550 million.

A country like Turkey can significantly improve her development prospects through an optimal utilisation of existing, though at present under-exploited facilities and resources. Among the possibilities are fuller utilisation of installed capacity, greater stress on comparative advantage (for instance, labour intensity), more sophisticated and economical use of energy (as already practised in industrial countries), and more efficient mobilisation and streamlining of domestic and foreign capital.[21]

INEQUALITY REVISITED

We already indicated the inequalities of the past, and it is worth while to focus our attention on the situation prevailing in the present decade, in view of the accumulating unemployment and the widening inequality in income distribution.

The population of Turkey by the end of the 1970s was about 45 million, following a net annual increase of nearly 2.5 per cent. Economic growth, substantial in the 1962–72 period (7.1 per cent *per annum* on average) fell to 5.6 per cent during 1973–7, then to 2.9 per cent in 1978, and to −0.4 per cent (that is, negative growth) in 1979, all in constant 1968 prices. Consequently, *per capita* growth stood at 4.5, 4, 0.8, and −2.4 per cent, respectively. Over the longer 1960–73 period, the average *per capita* growth lagged behind that of other comparable economies, such as those of Greece, Spain and Portugal, and fell even further in the post-1973 years, as shown above.

At the end of the 1970s inequality of income distribution was even more serious than in the past, with the lowest 3.8 per cent of households receiving 0.5 per cent of disposable income, and the highest 3.2 per cent of households receiving 21.8 per cent of income. Another comparison shows, that the lowest 10 per cent of households had to be satisfied with 1.96 per cent of income, as against the top 10 per cent of households collecting over 30 per cent of income, a ratio of more than 15:1.[22]

In land ownership, the top 3.7 per cent of owners held 29.5 per cent of land, and the bottom 72.2 per cent owned 26.7 per cent only. Large holdings, 6,405 in number, owned nearly 11 million hectares, or an average of over 1,700 hectares per holding; small holdings, 3,644,505 in number, owned 216.67 million hectares, or an average of 59 hectares per holding. The average holding of the 159 largest estates was 30,000 hectares versus 2 hectares of the 2,267,000 smallest land units.

Inequality has been evident between urban and rural incomes, in a proportion of 3.5 to 1, but it is particularly striking between the upper and lower deciles, 5.4 to 1 in agricultural, and 20 to 1 in non-agricultural households. The inequality reflected also in educational and public services facilities, along both regional and social lines, has far-reaching implications for the future.

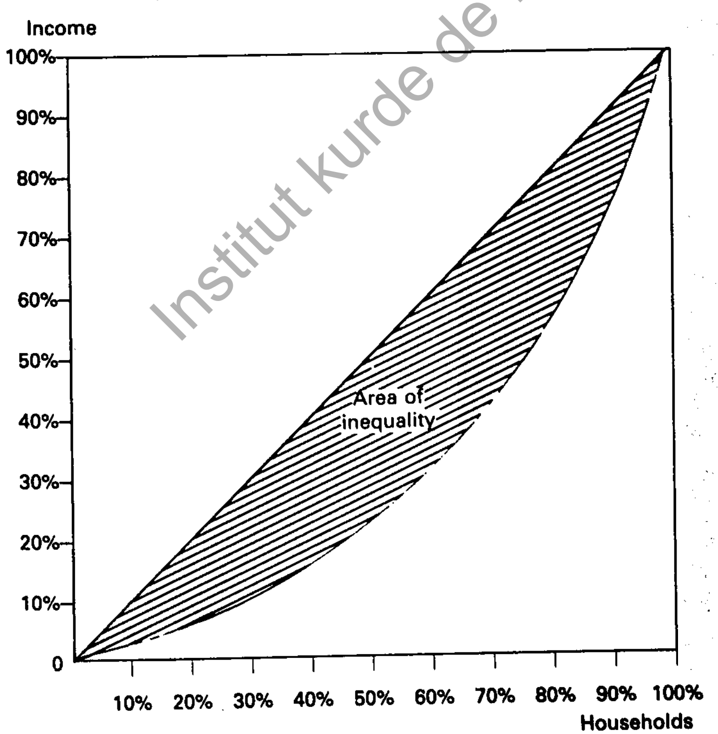
According to some estimates the Gini coefficient of inequality reached 0.51, and according to our own calculations it is closer to 0.40, still among the highest in the world. Table 7.1 and

Table 7.1: Income distribution in Turkey — 1978–9

Range of disposable income (in TL)	*Percentage of households*	*Percentage of total income*	*Cumulative % of households*	*Cumulative % of total income*
0– 2,999	3.8	0.5	3.8	0.5
3,000– 4,999	12.7	4.2	16.5	4.7
5,000– 6,999	18.3	8.9	34.8	13.6
7,000– 9,999	21.2	14.6	56.0	28.2
10,000–13,999	17.2	16.5	73.2	44.7
14,000–19,999	13.0	17.7	86.2	62.4
20,000–29,999	8.1	15.8	94.3	78.2
30,000–39,999	3.2	8.8	97.5	87.0
40,000–99,999	2.2	9.7	99.7	96.7
100,000 and over	0.3	3.3		
Total	100.0	100.0	100.0	100.0

Sources: See note 20.

Figure 7.1: Income distribution in Turkey — the Lorenz curve (end of the 1970s)



Source: Table 7.1.

Figure 7.1 show the more detailed income distribution and the Lorenz curve. The higher estimates of the Gini coefficient are based on the earlier, 1973, findings, rather than on those of the late 1970s. If data are reliable, the higher growth rates between 1971 and 1976 might have been responsible for less inequality, thus proving the controversy between the 'trickling-down' and equality strategy inconclusive. However, the relative strength of the trade unions in the 1970s has also contributed its share to this change, at least until 1980.

Turkey's high Gini coefficient confirms the occasionally contested Kuznets' inverted U-shaped curve, which stipulates that at the lowest and the highest income levels, inequality is relatively smaller than at middle-income levels in the process of development. Turkey fits into the middle group, along with Venezuela, Argentina, Chile, Tunisia, with a proportion of about 5:1 between the upper 20 per cent and the bottom 40 per cent of population, as against a proportion of 2 or 2.5:1 in economies such as Sweden, the Netherlands, the USA, Japan, and West Germany, on the one hand, and Sri Lanka, Malawi and Tanzania, with 2.5 or 3:1, on the other hand.[23]

If greater equality along with optimisation of employment are made boundary conditions, or, alternatively, the combined targets of the development plan, perhaps in the form of the representative employment target, the magnitude and patterns of investment will have to be made dependent upon them, and consequently lead to structural economic and social changes. This requires revision of priorities, instruments and techniques, but not necessarily giving up planning altogether.[24] So far the stabilisation policies have adversely affected wage-earners, owing to both increase in unemployment and the relatively efficient control of wages under conditions of re-emerging inflation. Attempts to keep inflation at a reduced level should be welcome in principle and beneficial to wage-earners, but the measures adopted by the government policies have so far resulted in the resumption of growing inequality, and hence dangerous economic and social repercussions which call for careful long-term strategies that are oriented to both growth *and* employment.

THE REPRESENTATIVE EMPLOYMENT TARGET

Employment has recently become in the LDCs the optimisation target of real economic growth as well as of income redistribution and greater social equality, precisely at a time when technological unemployment is spreading in the wake of the silicon-chip revolution, computerisation and robotisation. True, economic history has proved that the 'industrial revolution', initially considered as a secular threat to employment, produced, in the final analysis, new production lines and potentials, generated more employment for a rapidly growing population, and increased the share of labour's income in the overall higher GNPs. Nevertheless, the contemporary technological revolution raises new fears of labour becoming obsolete and of labour's income share lagging behind general growth.

While in the past chiefly physical functions of labour were partly replaced by the machine, the electronic chip is also able to substitute human mental functions. Thus, according to Leontief,[25] employment is in danger not only with regard to physically productive sectors, but also in services, where demand for labour has so far been on an increasing scale. Consequently, involuntary unemployment, not synonymous with less working hours and more leisure, will adversely affect income distribution through a growing margin of unemployment and concomitant pressure on wage rates. Leontief's rather pessimistic views can be challenged, *inter alia*, on empirical grounds, with the case of Japan, for instance, so far at least the country with the highest degree of computerisation and least unemployment; this largely derives from the very flexible limits of development of hardware and software, and of production and services in general. Still, while labour intensity in the LDCs grants them an edge over the DCs, the new technologies, as well as trade unionism, hamper the competitiveness of the developing countries, too, particularly in face of the persisting protectionism in the importing economies.

In the context of employment and rural–urban income distribution in Turkey, recent studies have shed new light on the *gecekondus* (shanty towns) and their population and labour force. It transpires that despite their plight, especially in housing and social conditions, their average income levels are higher than they were in the rural areas. Their skills, educational facilities, and employment, too, seem to be of a higher level, in spite of various setbacks and shortages.[26]

As in many other LDCs, under-utilisation of labour in general and the inadequate quality of human capital, as reflected in management, diligence, ingenuity and self-discipline (or, industrial discipline), have proved even more detrimental to the development process than the inadequacies in the quantity of capital, which is also under-utilised or misused under prevailing conditions. Some changes for the better in economic growth in 1981 and 1982, with relatively small increases in investment, particularly in private investments, show that growth derived mainly from better utilisation of capacity, and this was partly related to improvements in the ingredients of human capital.[27]

A non-negligible source of improvement of human capital may be Turkish migrant labour in Europe. Most of this labour was initially unskilled, and it was precisely this that rendered possible its absorption in the European countries, particularly Germany, in low-grade jobs unattractive to domestic labour power, which at that time did not suffer seriously from widespread unemployment, as it did later on. In the course of time, many of these migrant (or, guest-) labourers acquired some skills at various levels, and in the mid-1960s, with further consolidation in the 1970s, they began to set up Turkish Workers' Companies (*Arbeitnehmergesellschaften* or AG) with the purpose of self-help and of launching investments and creating jobs in Turkey. The number and size of the companies grew in the 1970s, and today some 160,000 workers are shareholders in the AG, with assets totalling some US$700 million to $800 million.[28]

Migrant labour, which totalled 760,000 in 1977, rose to about 800,000 in 1980 (60 per cent of them in Germany), to 938,000 by the end of 1981, and up to 1,150,000 by the mid-1980s.[29] It has become not only a source of substantial remittances, of about $2 billion in 1980, some 2.5 billion in 1981 and about 1.8 billion in recent years,[30] as well as of employment, but also a factor in improving human resources, on the assumption, of course, of a potential two-way bridge between Turkey and the outside world.[31]

The focus on optimisation of employment as the major target, in order to avoid the dichotomy of maximisation of two functions at once, should not deter the planners from overall requirements of macro planning and from adequate programming of a whole set of policy measures fitting the complex long-term development strategy.[32] The major instruments of this strategy are:

(1) Short-term annual plans, integrated in the five-year plan, for the sake of close control of performance and adjustments, if required.
(2) A realistic reassessment of public savings and investments.
(3) Relaxation of bureaucratic procedures, in particular with regard to foreign private and institutional investors, at least as introduced in relation to International Financial Corporation (IFC) loans and equity investment.
(4) Reallocation of resources in accordance with the national priorities, even within the framework of indicative planning only.
(5) A constant review of monetary and fiscal policies, addressing themselves to disinflation, on the one hand, and to avoiding shortages, under-utilisation of capacity, fall in productivity (due to lack of incentives), the menace of labour dismissals, and diminishing of investments, on the other hand. As in other economies, correct measures to salvage one area, for instance, inflation, may easily prove detrimental to other vital areas, such as growth, balance of payments or employment. In a correct strategy incorporating priorities, the macro framework and the resources equation must be adhered to.[33]
(6) A dynamic export drive, following the outward-oriented strategy, and grounded on a mainly foreign-exchange value-added basis, rather than on gross export volumes. This line of activity is justified by the labour-intensive character of present and prospective Turkish exports, with emphasis on agro-industry (in addition to agricultural produce proper), and on some capital and durable consumer goods, too.[34]
(7) More extensive and efficient utilisation of the still untapped potentials of various agricultural sectors, such as forestry and livestock, of domestic energy sources (lignite, water, sun, winds), of tourism, and of transportation, transit and depot facilities.[35]
(8) Greater incentives to research and development (R&D), readjusted to Turkish conditions, needs and comparative advantage.
(9) Promotion of relations with the European Community, hampered so far by political and partly by economic

considerations, in order to substitute genuine association for misunderstandings and disagreements that have been only partially patched up.

(10) Last but not least, a more serious and long-term effort to optimise the representative target, employment, for the sake of both growth and equity. Lip service is not good enough. Though the new policies of the early 1980s did attempt to tackle the labour issue, they did so mainly within the framework of the short-term stabilisation efforts. While prohibiting strikes and setting a ceiling of 25 per cent on wage increases, they tried to counterbalance the loss in real wages by reducing the rate of inflation and preventing redundancies and dismissals. However, since that ceiling was intentionally made to lag behind the prevailing rates of inflation, this necessarily resulted in a serious fall in real wages. To check the demand for improvement in real wages, supported and initiated in the past chiefly by the left-wing DISK trade unions, the unions were suppressed, and this eventually sparked off new, though largely latent, tensions. Also, the official policy directed against involuntary redundancies was not of great help to the already unemployed. Moreover, it clashed with the proclaimed efficiency drive, particularly in the already overstaffed SEEs,[36] and menaced the resources equation. Adequate employment and income policies are essential to the success of overall economic strategies.

It is generally agreed that a real growth of 7 per cent, at least, is required to meet the challenge of existing and accumulating unemployment.[37] The 1980s do not hold the promise of sustained growth at this rate. The challenge could be met by more investments and greater utilisation of installed capacity complemented by more sophisticated and determined demographic policies.

The fifth five-year plan lists three priorities: energy, infrastructure and export-oriented industries. These targets seem to be in line with point 4, and with the policies started by the stabilisation and liberalisation programmes. If adequately and perhaps more comprehensively, interpreted, and actually implemented, they may also respond to the requirements of comparative advantage, chiefly concerning agriculture, transportation, tourism, and labour and employment with their socio-economic aspects.

The achievements of these targets is a great challenge to the country's political and economic leadership. As the programme itself points out, a confrontation is unavoidable with one of the main maladies, bureaucracy, characterised, in particular under *dirigisme*, by red tape and overlegislation, and practical measures have indeed already been taken to streamline the work of the government through a reduction and consolidation of ministries and departments. Improved and more progressive taxation may not only increase revenues, but also contribute to redistribution of income, in complement to a more aggressive employment strategy.[38]

NOTES

1. İş Bankası, *Review 1984/11*.
2. MEED, 7 September 1984.
3. Compare Tüsiad, *The Turkish economy 1985*, p. viii.
4. See W. Leontief, 'Technological advance, economic growth, and income distribution', in *Population and Development*, vol. 9, no. 3, New York, September 1983.
5. Compare Hershlag, *Economic planning in Turkey*, 1968, p. 15 and *passim*; and 'Growth models for the Middle East', in M.A. Cook (ed.), *Studies in the economic history of the Middle East*, 1970, *passim*.
6. DPT, *Fifth five-year plan, 1985–9*, Yayın No: DPT: 1987, pp. 1–3, para. I.
7. The following enterprises were targeted for prospective privatisation: the Bosphorus Bridge, the Keban Dam, the Turkish Cement Corporation, the Fertiliser Corporation and the Sümer Bank. Compare OECD, *Economic outlook*, 40, December 1986, p. 15.
8. Tüsiad, 1986, p. iii and *passim*.
9. *Government programme*, 1983, p. 12.
10. Compare Yayın No: DPT: 1987.
11. Also the Industrial Development Bank of Turkey (TSKB) set up a macro model, the Turkish Econometric Model (TEM), with estimations based on observations over the period 1964–81, and on ongoing and current research. Compare F. Yağcı, 'A macroeconomic model', 1984, p. 4.
12. DPT, *Fifth plan*, Table 3.
13. Tüsiad, 1985, p. 1 ff.
14. DPT, *Fifth plan*, Tables 4, 5 and *passim*.
15. Compare Boğazıcı Seminar papers. We return to this subject in its wider context in our closing remarks in Chapter 8.
16. DPT, *Fifth plan*, p. 205.
17. SPO sources.
18. See Hershlag, 'Economic policies', in Grothusen (ed.), *Türkeil*

Turkey, Göttingen, 1985, p. 358, and his *Pitfalls of development strategy*, offprint from *METU studies in development*, Special Issue, Ankara, 1981.

19. DPT, *Fifth plan*, p. 358.

20. Compare note 18.

21. Z.Y. Hershlag, 'Economic policies', in Grothusen (ed.), *Türkei/Turkey*, Göttingen, 1985, *passim*.

22. K. Derviş and S. Robinson, 'The structure of income inequality in Turkey (1950–1973)', in Ozbudun and Ulusan (eds.), *The political economy of income distribution in Turkey*, New York, 1980, pp. 83–122; M. Özay, 'Turkey in crisis', *International Journal of Middle East Studies*, 15 January 1983, p. 57; *İstatistik Yıllığı*, 1985, pp. 185, 221 and *passim*.

23. Compare S. Kuznets, 'Economic growth and income inequality', *AER*, March 1955, and 'Qualitative aspects of the economic growth of nations', *Economic development and cultural change*, January 1963, *passim*; Z.Y. Hershlag, *The philosophy of development revisited*, 1984, pp. 64, 73–4; M. Paglin, 'The measurement and trend of inequality: a basic revision', *American Economic Review*, vol. 65, no. 4, 1975, pp. 598–609.

24. Criticism of strategies and policies is a welcome phenomenon, if it is well conceived. However, certain statements, which look palatable on the surface, may be misleading. For instance, apart from the disputability of the figures themselves, a contention that Turkey invested 24 per cent of her GNP, whereas her savings amounted to 16 per cent only does not strike at the true roots of the difficulties, which stem from questionable utilisation and patterns of investments, as well as from the sources which covered the savings-investments gap, rather than from net capital imports. See, *inter alia*, H. Kramer, *Die Türkei*, July 1982, *passim*.

25. Compare Leontieff, 'Technological advance', 1983.

26. The estimates of unemployment for the end of the 1970s have fluctuated widely between 3.5 and 7 million, whereas from some of my fellow Turkish economists I have on occasion heard vehement denials of any unemployment and somewhat strange definitions of unemployment, particularly concerning agriculture, and urban occupations too. For differing estimates see *Turkey Today*, March 1979; *Economic survey, passim*; Pamukbank, *Economic Commentary, passim*. For the situation in the shanty towns, see S. Aral, 'Social mobility in Turkey', in Özbudun and Ulusan, *The political economy of income distribution*, 1980, p. 481 ff.

27. M. Hiç, *Developments since 1980 in the Turkish economy*, n.d., *passim*.

28. M.U. Aksoy, 'Der Stellenwert der Migration für die wirtschaftliche Entwicklung der Türkei unter besonderer Berücksichtigung der Arbeitnehmerinvestitionen', in *Die Türkische Krise*, Bonn, 1981, Analysen 89/90. According to this source, up to September 1980 the AGs had created more than 15,000 new jobs, chiefly in eastern Anatolia. Professor Manisali, who studied the issue of Turkish migrant labour extensively, estimates that while Turkish workers in Germany spend 75 per cent of their incomes and remit to Turkey 25 per cent only, those working in the Middle Eastern countries (chiefly in oil

countries) remit to Turkey 75 per cent of their earnings. In addition, an estimated US$6 billion has been retained by Turkish workers abroad and deposited in European banks. See also E. Alkin, *Turkey's International Economic Relations*, Istanbul, 1982, p. 96.

29. Compare TİB, *Economic indicators, passim*; *E+Z*, 8 September 1986.

30. Compare OECD, *1981 Turkey almanac*, and the cumulative table on pp. 154–55. In this context we do not deal with the complex economic, social and political issues of migrant labour at large in present-day, unemployment-stricken Europe.

31. See Tüsiad, 1985, *passim*.

32. Compare OECD, *Main economic indicators*, 1983; Merkez Bankası, pp. 14–15. The case of Japan (already referred to) in the recent five-year period proves, contrary to conventional economic wisdom, that enjoying the lowest rate of inflation among the DCs (1.8 per cent in 1982) does not preclude retaining the highest real rate of growth (3 per cent) and the lowest rate of unemployment (2.4 per cent of the labour force). This, as indicated in the text, is despite certain recent complications in Japan's economy.

33. In export-oriented economies there has been a clear trend of growth in real income, in employment (despite temporary setbacks in employment due to capital-intensive investments and efficiency), and in equality, as reflected in the fall in the Gini coefficient. See Balassa, *Development strategies* (1982), pp. 38, 48–58.

34. In Turkey, a change in the direction of trade has taken place recently. As already noted in Chapter 5, the relative share of exports to OECD countries has been on the decrease, and they mainly consisted of agricultural products and textiles, whereas increased exports to the Islamic countries were industrial consumer goods, producer goods, skilled labour and entrepreneurship. Between 1977 and 1981, exports to the OECD fell from 70.4 per cent to 48.1 per cent, and imports from the OECD to Turkey, from 68.9 per cent to 47.9 per cent. However, in the later months of 1982 and throughout 1983 and 1984 the trend began changing again with over 50 per cent of exports going to the OECD, largely due to the adverse repercussions of the oil glut on the import propensity of the Middle Eastern oil countries. Compare TİB, *Economic indicators and review 1983/2*; Tüsiad, 1985, *passim*.

35. Economist, 12–18 September 1981.

36. See section on the SEEs, above.

37. Tüsiad, 1986, p. v.

38. Özal's concept of 'genuine social justice' reflects a classical liberal approach rather than one of socialism, or the minimum-wage principle, or even of a welfare state. He believes that economic measures — such as growth, progressive taxation, labour-intensive investments and production, and better credit facilities for small urban and rural producers, as well as letting the rich sell their villas to obtain money for investment requirements — should lead to more social justice. Still, significantly, the post-election Özal government considers unemployment to be Turkey's 'number one problem'. This attitude, however, is not sufficiently reflected either in the development plan or in current policies.

8

Epilogue to the First and Prologue to the Second Quinquennium

The first quinquennium of the 1980s has not yet shown a definite favourable trend in real growth, employment and foreign accounts, nor in sustained disinflation. Özal believes that after a certain time-lag necessary for readjustment to free-market strategies, sustained disinflation accompanied by reasonable monetary and fiscal policies, harder work, greater efficiency and competitiveness, will attract savings and domestic and foreign investments, all leading to long-term recovery and growth.

The task of economic recovery and resumption of sustained growth is not easy, due, *inter alia*, to the re-emergence of industrial and labour pressure groups, though the leaders of the country seem to be determined not to yield to these pressures but to carry out their programme. In fact, this determination was questioned in the course of 1984 and 1985. It is premature at this stage to judge the full meaning and success of the present strategies, which may not survive politically. Moreover, with all the importance of domestic strategies, the future of Turkey's economy is also largely a function of numerous exogenous factors, such as oil and energy prices, which towards the end of 1986 started to reverse their previous downward trend, as well as international monetary and market fluctuations.

The main determinants of the economic performance in the second quinquennium of the 1980s will be the public budget, linked to money supply, the domestic demand, and the inflationary trends; the saving and investment priorities, which determine the future rates of growth; and the course of the balances on foreign accounts and capital influx, which may favourably or adversely affect the development plans and efforts.

Table 8.1: Resources and uses, 1985 and 1986 (*in TL billions, at 1985 prices*)

	1985		*1986* (programmed)		*% increase*
GNP	27,345		28,712		5
Net capital imports	428		436		
Total resources	27,773		29,148		5
Fixed capital investments	5,099		5,363		
their % in GNP		18.65		18.68	
their % in total resources		18.36		18.40	
Changes in stocks	113		208		
Total investments	5,212		5,571		6.9
their % in GNP		19.06		19.40	
their % in total resources		18.77		19.11	
Public consumption	2,336		2,421		3.7
its % in GNP		8.54		8.43	
its % in total resources		8.41		8.30	
Private consumption	20,225		21,156		4.7
its % in GNP		73.96		73.68	
its % in total resources		72.82		72.58	
Total consumption	22,561		23,577		4.5
its % in GNP		82.50		82.11	
its % in total resources		81.23		80.89	

Sources: Maliye ve Gümrük Bakanlığı, *1985 Yıllık Rapor*, 1986, p. 6; DPT (SPO), *Fifth five-year development plan 1985–1989*, p. 9.

The fifth five-year plan and the annual programmes anticipate improved balances of the public budget. Estimates of budgetary deficits are not yet final for 1986, but they fluctuate around TL500 billion. The informal forecasts for 1987 are as high as TL900 billion in current terms. Business circles complain of continued crowding out by the government, which, despite a reduction of 2–3 per cent in interest rates on time deposits, still offers 50 per cent net on Treasury bonds, versus a net one-year bank interest of about 40 per cent.

The deficit in the consolidated domestic budget is expected to fall from 2.3 per cent of GNP to 1.6 per cent; this, however, is after including in revenues net domestic borrowing at a rate, in current terms, double that in 1985, that is, much higher than the expected deflator. Since both the Central Bank advances and Treasury bills figure at nil for 1986, the deficit still remaining may be balanced either by foreign sources or by cutbacks in expenditure.

The next determinant, investments, can be considered as the decisive factor in the growth process, in creating employment, and in improving welfare. Success depends on the extent, sectoral distribution and the efficient utilisation of capital formation.

Total investments, in 1984 and 1985, vacillated between 19 and 20 per cent of GNP, with some 9 per cent from the private sector and nearly 11 per cent from the public sector. In fixed capital investment, the share of the public sector was even higher and on the increase (61.3 per cent in 1985).

Table 8.1 on resources and uses illustrates our point regarding investments.

Over 28 per cent of public investment went to transportation and communications, 22 per cent to energy, and over 14 per cent to manufacturing, with much less to other activities in different infrastructural and directly productive areas. Private investment was quite diversified, though mainly directed to housing, manufacturing and transportation and, with a share equalling that of the public sector, to agriculture. While the savings and investments of the private sector were almost identical, the savings-investment margin of the public sector remained negative, thus adding to the borrowing burden resulting from current deficits.[1]

The distribution of total investments in 1985, according to Table 8.2, shows the main emphasis on transportation and communications, manufacturing, construction and energy, in descending order.

Table 8.2: Sectoral distribution of investments in 1985

Sector	*Percentage in total*
Agriculture	8.86
Mining	5.64
Manufacturing	19.19
Energy	14.49
Transportation and communications	26.39
Tourism	1.06
Construction	14.82
Education	2.19
Health	0.78
Miscellaneous	6.58

Source: DPT (SPO), *1986 Programında Yer Alan Gerceklesme Tahmini.*

The SPO estimates for 1986 were a 5 per cent real growth of GNP, based on a 3.3 per cent growth of agriculture, 5.5 per cent of industry and 4.7 per cent of services, with minimal changes only in the respective sectoral shares.[2] Other forecasts were more cautious, mainly with regard to the performance of agriculture, which may reach a growth of 2.7 per cent only, thus possibly reducing the growth of GNP to 4.6 per cent only. Other, much more optimistic estimates suggest a growth rate of 7¾ per cent for 1986, though only 5 per cent for 1987.[3]

According to the estimates of the SIS, published on 8 August 1986, the share of agriculture in GNP (calculated in current prices) will fall from 17.5 per cent in 1985 to 16.7 per cent in 1986, while industry's contribution (including manufacturing, mining, electricity, gas and water) will increase from 31.6 per cent to 33.4 per cent, respectively. At around 50 per cent, the share of all services should be only slightly less in 1986 than in 1985. The SIS's estimates in constant prices (that is, changes in real net output) are more optimistic. They envisage a greater contribution of agriculture (around 20.5 per cent), a smaller one from industry (28.2 per cent), and a higher rate of growth of GNP in 1986 (7.8 per cent, which is higher by 2.8 per cent than other prevailing estimates, and 1.5 per cent higher than the annual average of the fifth five-year plan), thanks to higher growth rates of both industry (10.7 per cent) and agriculture (7.1 per cent), higher than those suggested by other sources.[4]

The achievement of either of these targets depends on certain objective factors, such as the weather and international markets, but also to a large degree on the rates of savings, investments, efficiency and effective domestic demand, with foreign demand as a complementary factor.

A slight increase is expected in domestic savings, from 17.5 per cent of GNP in 1985, to 17.9 per cent in 1986, and in fixed investment, from 18.6 per cent to 18.7 per cent (a negligible margin), in the public sector rather than in the private one. Consequently, the investment-savings gap of the public sector may increase from 2.21 per cent in 1985 to 2.26 per cent in 1986 (as a percentage of GNP). Since the projections are made on the disputable assumption of an inflation rate of 27 per cent, the forecasts may prove inaccurate (apart from the impact of exogenous factors). We have already indicated the significant divergence between that lower projection and the higher estimates of 35 per cent or even more for 1986 inflation, in the wake of high public infrastructural spending, reduced tax rates, higher transfers to households, rising wages and farmers' incomes — all boosting private consumption and pushing prices up; this, despite monetary policies attempting to focus on the control of growth of monetary aggregates.[5]

The domestic investment-savings gap requires compensation from foreign sources. In recent years, foreign investors have not shown great enthusiasm for intensifying their activity, despite the tax incentives and other facilities. They were still sitting on the fence in 1985.[6] In the first six months of 1986 the influx of private foreign capital investments approved by the government amounted to $186 million, mainly to services (60 per cent) and manufacturing (34 per cent). However, as in the past, a substantial gap will presumably appear between the permits and implementation.

The most striking change envisaged for 1986 is the reduction of fixed capital investment by all public agencies in manufacturing to two-thirds of its past volume (from about 14 per cent in the past to 9.6 per cent in 1986), in favour of transportation and communications (from 28 per cent to 32.5 per cent). Further decentralisation is reflected in the increasing role of 'special funds' and local authorities partly substituting direct financing by the general and annexed budgets and the SEEs. This 'decentralisation', however, should be regarded with reservations, as already indicated, in view of the actual infusion of funds to local authorities from central government sources, and/or by the giving up some revenue sources in favour of the 'special funds', both of which are presumably included in the budget under 'other transfers'.[7]

The private sector is expected to lead investments in construction and manufacturing, with a significant share also in transportation and communications.

The overall distribution of investments planned for 1986 shows the respective shares of transportation and communications, 27.2 per cent, manufacturing, 15.7 per cent, construction, 14.8 per cent, energy, 12.9 per cent, agriculture, 9.9 per cent, and mining, 5.1 per cent. The share of education is 2.6 per cent, and of tourism, 1.3 per cent. On the whole, the planned investment targets are similar to those achieved in 1985, with a certain shift from manufacturing to agriculture, and nearly the same low shares for education and tourism (compare Table 8.2).

The analysis of investment incentive certificates shows a desirable trend of growing attention to the more distant parts of the country (for example, south-east Anatolia), as well as the concentration on completely new investments rather than on additions to old ones. However, validation of this observation awaits implementation and results.

Although the declared investment policies priority is accorded to projects oriented to exports for the most part, to be completed in 1986, it is doubtful whether the declared targets will be achieved in accordance with the time schedule, since infrastructure, with beneficial but long-term effects, tops the list, and completely new ventures claim 73 per cent of all investment incentive certificates.

The government's stake in infrastructure, largely through long-term public works projects (financed for the most part by extra-budgetary funds), partly affected, as in the past, by political considerations, undoubtedly contributes to higher expenses, without early returns, and to an increase of deficits and money supply. This criticism, however, must be qualified by the pressing need to meet the challenge of the tense unemployment situation, at least partly. In the final analysis, this policy may even prove economically justifiable, despite objections raised by domestic observers as well as by the OECD and IMF.[8]

Since the focus of new investments is on exports, a brief word about this sector is in place. In fact, the returns for exports in January–May 1986 showed a very slight improvement only over 1985. The month of May itself registered a rather significant fall in comparison with May 1985. Mining and industrial goods performed well, but agricultural exports were disappointing. While in the first five months of 1986 exports rose by 1.7 per cent, imports increased by 9.5 per cent, in particular in investment goods. Consequently the trade deficit for that period increased from $1,181 million in 1985 to $1,531 million in 1986. Later data on the half-year performance, January–June 1986, show a rise in imports of 8.6 per cent over the parallel period in 1985, but a fall of 2 per cent in exports, thus increasing the comparative trade deficit from $1,379 million to $1,885 million.[9] An extrapolation of trends for the whole of 1986 indicates a possible increase in the trade deficit from US$2,975 million in 1985 to $3,800 million in 1986, and a fall in the ratio of exports in imports to about 65 per cent. Though it may be premature to rely on preliminary returns and estimates, the country may face growing difficulties in its current account and in meeting its external financial commitments.

On current account, among the invisibles, workers' remittances registered in the initial months, January–April 1986, a better performance than in the same period in 1984, but a fall of 25 per cent in comparison with that in 1985. In the past, however, the second half of the year has usually shown a much better performance in remittances than the first half.[10]

Net income from tourism also fell, from $163 million to $80 million, for the same periods of 1985 and 1986, respectively.

The overall deficit on current account in the months January till April 1986 increased to $785 million, in comparison with $294 million for the same months in 1985. This deficit was covered mainly by short-term capital movements and, to a lesser degree, by official reserves. Preliminary estimates of the deficits on current account in 1986 suggest a figure of US$1,250 million (as compared with $1,013 million for 1985).[11] Still, domestic economic circles remain optimistic regarding the feasibility of the country meeting its annual commitments in foreign exchange.[12]

Turkey's external debt, which already increased significantly from US$21,288 million in 1984 to US$25,012 million in 1985, has kept growing till $26,303 million by the end of April 1986, as did its ratio in GNP, from 43.5 per cent to 47.7 per cent, and to 48.9 per cent, respectively. This ratio itself is not excessive in comparison with many other economies, but two aspects of the growing debt may be a source of serious concern, namely, the resulting burden of annuities and the rising share of short-term debts, from 21.2 per cent in 1984 to 26.5 per cent in 1985, and to 29.7 per cent in April 1986.

At the time of this writing, in early 1987 it is difficult to check the various forecasts and extrapolations against actual economic performance. It is, however, indicative, that the results of Tüsiad's forecast survey (made in July 1985), show that in the view of the overwhelming majority of leading industrialists and professional academicians the three most important and crucial problems are, and will continue to be also in the near future, inflation, unemployment and income distribution.[13] This seems to confirm our previous analysis and the setting of employment as the representative strategic development target, in line with the structuralist approach.

An integral issue in the concept of structural changes is comparative advantage, which should render possible a more rational utilisation of domestic potentials both on the domestic market and, through free trade, also on the international market, thus benefiting all partners behaving according to the principle. On the surface, this Smithian–Ricardian, and with regard to North–South relations, Listian concept, in principle adopted by monetarism and neo-liberalism, seems sufficient to maximise the global welfare and sustained growth. However, in particular under prevailing power structures, economic as well as political, imperfect and sometimes non-existent free competition, under novel technological conditions and changes in demand and supply, and persisting inferiority of secularly weak, primary-structured economies, various qualifications are required to put the concept in the right context. It is difficult to imagine streamlining of investments, of priorities, of potential, though still dormant, comparative advantage through domestically adjusted research and development, and of international exchange of commodities and services, intertwined with the sensitive issue of balance of payments, without active long-term government policies and programming.

The issue becomes still more complex in those poorer economies hit by runaway inflation and stagflation, which, unlike rich countries such as those of Western Europe, North America and Japan, are not endowed with high and sustained real income and with adequate welfare margins for the poor strata of society and the unemployed. The latter may not enjoy the macro welfare benefits, possibly, though not necessarily, resulting from freer international exchange as the 'engine of growth', especially in an environment of inflationary distortions, the price of which is chiefly paid by wage-earners and unemployed.[14] The Turkish economy fits quite well into this model, and defeating inflation and the inequality gap, which can hardly be done simultaneously in the short run, requires active government participation in long-term structural transformation. Outward-oriented policies can play a positive role in this process on condition that, in contradiction to the old-new *laissez-faire*, the concept of private profit is not equated with social profit, that comparative advantage is given a dynamic interpretation, and that optimisation of employment of upgraded human resources becomes the focus of development strategies.

NOTES

1. Compare Tüsiad, 1986, pp. v–vi. As already indicated, the public sector's borrowing requirements circumscribed the availability of funds for the private sector and pushed interest rates up.
2. DPT, *1986 Programında Yer Alan Gercekleşme Tahmini.*
3. OECD, *Economic outlook*, 40, December 1986, p. 19; Tüsiad, 1986, Appendix 1.
4. DİE (SIS), *Haber Bülteni*, 29 August 1986; Istanbul Sanayi Odası, *1986 Yılı İlk Yarısında Türkiye Ekonomisi*, Ekim 1986, p. 110.
5. IMF, *International financial statistics*, November 1986, pp. 498–9; OECD, *Economic outlook*, 40, p. 125.
6. ANKA News Agency, 5 March 1984.
7. Sources of Ministry of Finance and Customs and Undersecretariat of the Treasury and Foreign Trade.
8. OECD, *Economic outlook*, 40, pp. 124–5.
9. DIE (SIS), *Haber Bülteni*, 29 August 1986.
10. Tüsiad, 1986, p. 150 ff.
11. OECD, *Economic outlook*, 40, p. 56.
12. Tüsiad, 1986, Appendix II.
13. Ibid.
14. An interesting discussion of some of these issues, related to structural change, can be found in Reinaldo Gonçalves's Discussion Paper: *Unctad, structural adjustment and structural change: in search of a comprehensive approach*, UNCTAD, Geneva, 1986.

Cumulative table: Select data on the economy of Turkey, 1970–85

Item	*1970*	*1971*	*1972*	*1973*	*1974*	*1975*
Population, mid-year, in millions	35.3	36.2	37.1	38.1	39.0	40.1
Δ GNP in constant prices	4.9	9.1	6.6	4.4	8.5	8.9
Δ GNP *per capita* in constant prices	2.4	6.5	4.1	2.0	6.0	6.4
Budgetary deficits, in current TL millions[a]	+254	5,637	+31	2,853	4,201	5,200
Money supply, % annual rise,						
M1	14.0	27.1	26.5	27.8	28.0	27.7
M2	20.8	26.2	26.1	26.9	22.0	35.8
Inflationary rates, average annual, in %,						
Wholesale prices	11.9	15.9	18.0	20.5	28.9	16.2
Consumer prices	6.8	15.7	11.8	15.4	15.9	19.2
Balance on current account, in US$ millions	−44	+43	+212	+660	−561	−1,648
Terms of trade (1973 = 100)	95	100	102	100	79.2	77.7
Workers' remittances, in US$ millions	300	500	770	1,150	1,900	1,312
Foreign debt (US$ millions) end of year	1,862	2,191	2,455	2,800	3,105	3,180
Exchange rates (TL in 1 US$) end of year	14.8	14.0	14.0	14.0	13.8	15.0
Central Bank's reserves (excl. gold) US$ millions[b]	304	631	1,265	1,969	1,708	918

Notes: [a] Without sign means deficit; with sign + means surplus. Some incompatibility between data derives from differences and inexactness of sources, in particular with regard to the gross deficit and that net of domestic loans. [b] Since 1982, the international reserves, *including those of the authorised banks*, were nearly double.

Sources: DIE, *İstatistik Yıllığı, Aylık İstatistik Bülteni, The fourth preliminary estimation of GNP for 1984*, and *The third preliminary estimation of GNP for 1985*; *OECD Observer*, No. 139, Paris, April 1986; Türkiye İş Bankası, *General economic conditions* (annual); Yapı ve Kredi Bankası,

1976	*1977*	*1978*	*1979*	*1980*	*1981*	*1982*	*1983*	*1984*	*1985*
40.9	41.8	42.6	43.5	44.4	45.4	46.3	47.3	48.3	50.6
7.9	3.9	2.9	−0.4	−1.1	4.2	4.4	2.9	5.7	5.1
5.3	2.1	0.8	−2.4	−3.1	1.9	2.0	0.5	3.5	2.8
10,200	47,300	27,400	88,400	164,800	117,200	151,200	298,600	944,700	781,600
28.1	33.7	41.6	56.2	58.4	38.7	38.1	44.6	13.1	31.2
25.2	35.0	32.8	60.9	67.1	85.6	56.0	28.7	57.5	59.0
16.1	24.9	43.8	67.8	107.2	36.7	27.0	30.4	50.3	43.2
17.3	27.1	45.3	58.7	110.2	36.6	32.0	28.2	45.6	47.5
−2,029	−3,138	−1,266	−1,413	−3,409	−1,916	−935	−1,898	−1,407	−1,013
79.4	73.8	73.7	73.7	56.9	52.1	49.7	48.8	55.3	59.6
982	982	983	1,694	2,071	2,490	2,187	1,550	1,881	1,774
3,569	4,323	6,188	10,971	13,216	17,638	17,619	18,385	21,288	25,012
16.5	19.2	25.0	35.0	89.2	132.3	185.0	280.4	444.3	574.0
978	620	833	767	1,077	928	1,050	1,288	1,271	1,056

Monthly economic letter and Ekonomik Rapor (annual); Merkez Bankası, *Quarterly statistical surveys and The Republic of Turkey* (March 1985); Maliye ve Gümrük Bankalığı, *1987 Malî Yılı Bütçe Gerekçesi*, Ekim — October 1986; Tüsiad, 1986. World Bank, *Annual reports*; OECD, *Economic surveys, Turkey* and *Economic outlook* (June 1985); IMF, *Balance of payments statistics* and *International financial statistics, 1986 yearbook*; UN, *Monthly bulletins of statistics* and Statistical yearbooks.

9

Postscript

In the course of 1986 and part of 1987, no major changes have been observed in the trends of Turkey's chief economic variables: population growth, GNP, employment, public finances, foreign accounts, monetary policies, inflation and income distribution. However, while some of the deviations from previous trends may be transitory and of short duration, others may turn out as long-term trends, particularly in view of a change for the worse in the course of 1987. Main deterioration took place in inflation and foreign indebtedness. Therefore, a closer follow-up of recent developments is of importance.

Returns for the year 1986 indicate a relatively high rate of 8 per cent growth in national product, or over 5.5 per cent growth *per capita*, higher than anticipated in the 5-year plan. Agriculture and manufacturing were the main contributors to this achievement. Also direct foreign investment, at US$125 million in 1986, exceeded that in the preceding years.[1] Still, the increase in domestic demand, by 10.5 per cent, that is, by more than 2 per cent higher than the rate of growth, accompanied by a further fall in remittances and lower net tourism returns,[2] adversely affected the deficit on trade as well as on current account, which widened to US$1.5 billion, or 2.5 per cent of GNP. Foreign debt further increased in 1986 to US$31 billion, partly balanced by increased foreign reserves in both the Central and commercial banks. Estimates of foreign debt by the end of 1987 range between US$33 billion and US$38 billion.[3] The deterioration in foreign accounts occurred despite the fall in the costs of net oil imports, from US$3.1 billion in 1985 to US$1.8 billion in 1986.[4]

The growth of the national product in the year 1987, still on an upward trend, though lower than in 1986, is estimated at

6.8 per cent.[5] The less than satisfactory progress in relations with the European Community is partly responsible for the scaling down of growth. Also the persistent, still high inflationary rate of over 30 per cent in 1986, and continued devaluation of the Turkish lira, to the level of TL865 in one US dollar by August 1987 and about TL1,000 by the end of 1987 (in the face of a certain stabilisation of the US dollar itself), have not constituted a favourable climate for a meaningful spurt in both domestic and foreign investments, apart from institutional pre-arrangements, regarding in particular, the second Bosphorus bridge and the GAP project.

The increasingly confused political domestic arena and the pendency of elections, finally held ahead of time in November 1987, cast their shadows on the freedom of sound economic decision making and manoeuvring feasibility of economic strategies. The latter are usually substituted by pragmatic economic tactics dominated by passing political and social considerations, not necessarily conducive to long-term national economic interests. Domestically, Özal's renewed mandate, with an absolute majority in the parliament (largely resulting from the peculiar Turkish electoral system), renders possible the continuation of his market-oriented policies. However, the cracks in the economy, which reappeared in 1987, in particular in foreign and domestic indebtedness and inflationary trends, and the rather unexpected strength of the new social-democratic opposition headed by Professor Erdal Inönü, constitute a major challenge to the proclaimed targets and policies.

Also exogenous factors, like the already discussed ups and downs in the relations with the EEC, and the unstable situation within the EEC itself, or the re-emerging higher prices of oil, to about 50–60 per cent above the oil-glut level, cannot remain without a significant imprint on Turkey's foreign accounts and the overall trends of her economic performance. Among other factors, the slight improvement in employment in 1986 — with its growth above the increase in labour force — will presumably reverse this trend as a result of policy measures in 1987. These were aimed at restricting the public and external deficits, but were threatened by the already indicated reversal in oil import prices and possibly deteriorating terms of trade.

Despite all this, over-pessimistic assessments and prognostics of some Turkish economists and business circles[6] seem to be unjustified in the light of the Turkish performance — as compared with many other developing and industrial economies — regarding the respective rates of growth. A number of major important ventures will have long-term dynamic and cumulative impact on rates of growth, such as the GAP, the thermal power stations, or the second Bosphorus bridge and there are still untapped potentials in primary, secondary and tertiary sectors.

A particular upsurge has been felt in the area of power generation, both through thermal plants and hydroelectric schemes. The first are mainly financed by foreign investors and contractors, on the basis of BOT (Build, Operate, Transfer) for a period of 15 years. Afterwards, the TEK (Turkish State Electricity Authority) will buy the plants, or participate in their ownership of a joint venture, with TEK in minority. Three major thermal plants are in view, each worth about US$1 billion.[7]

The already mentioned GAP project largely concentrates on the generation of hydroelectric power combined with extensive new irrigation facilities. The impressive Atatürk Dam and Hydroelectric Power Station were opened on 16 June 1985. The end-project is expected to be completed by the year 1992, and to yield 24 billion KwH (or over 70 per cent of total power generation by that time), and to add over 1.6 million hectares to the presently nearly 1.5 million hectares of irrigated land. Thus, an estimated investment of about US$10 billion, in the ventures mentioned *plus* a net of infrastructural works, such as roads, communications, schools, hospitals and clinics, should result in US$2.5 billion incremental product. If actually achieved — and the underlying capital/output ratio of four looks very reasonable — this would amount to an *additional* annual growth rate of 4.8 per cent, or 2.8 per cent *per capita* by 1992 (assuming a reduced net population increase), thus improving the scenario for the year 2000, referred to below, and, at the same time, reducing both regional and social inequalities, through according better earning and wage conditions to the earners in the vast south-eastern area.[8]

The said scenario reflects, of course, the extensive potentials of the Turkish economy, but the achievement of these impressive targets depends on a great number of exogenous factors as well as on domestic developments in human capital and the process of decision making and implementation. This includes socio-political stability and the quality of the governing bodies of the country.

Recently, attempts were made to build scenarios for the Turkish economy in the year 2000.[9] Forecasting such a distant period is not an easy task in view of many *imponderabilia*, which cannot be predicted. In any case, they should be based on the extrapolation of long-term proven parameters, rather than on short-term success or failure. Apart from a few exceptional periods, Turkey's economic, social and technological development is clearly on an irreversible upward trend. Even the fashionable fundamentalist trends will presumably not have a lasting effect under Kemalist Turkey's conditions. Despite possible deviations, the targets set for the Fifth Development Plan, and the end-of-the-century programme of doubling real *per capita* income, look realistic. What deserves much more attention — for both political and economic reasons — is the uncertainty of the degree of participation of the majority of population in the overall development process and its fruits. With improving statistical methods, periodical reviews of income distribution and the Gini coefficient will be able to show whether economic advance is accompanied by greater social equality. Meanwhile forecasted cumulative changes in *per capita* income, as extrapolated from past trends, can be supplemented by some structural parameters undergoing transformation, such as demographic trends, technology, new investments, advanced human capital, etc.

Of course, all these forecasts must be treated with great caution. For instance, a suggestion raised by some Turkish economists, to compare the living standards and the respective incomes *per capita* in Turkey and in other countries in terms of purchasing power parity (PPP), instead of dollars, ECUs or SDRs, is not new and sounds legitimate. However, even for contemporary comparisons this procedure presents many difficulties, *inter alia*, due to the differential consumption baskets of the respective populations, or the subsidies policies of the governments, etc. Therefore, a calculation which sets the Turkish GNP *per capita* (in 1968 prices) by the year 2000 at US$1,960 and in purchasing power parity at $5,700, is hardly acceptable.[10] Apart from the dubious predictability of certain parameters, the ongoing opening up of the Turkish economy and exposing it to the costs and prices of the international market, also the progressive changes in the Turkish consumption propensities and consumption basket render such scenarios doubtful.

What seems more realistic and adequate for the analysis of Turkey's future economic growth, is a follow-up of the development trends in real domestic product, by using the GNP deflator, possibly corrected by changes in the consumer prices and consumption baskets, on the heels of economic advance.

Our own calculations, based, for the sake of simplicity, on a round figure of US$1,000 GNP *p/c* in 1985 (at the then prevailing rate of exchange), suggest several possible scenarios, extrapolated from average annual growth rates in the preceding 5, 10 and 15 year periods, as well as one planned average rate of incremental 5 per cent growth. As a result, our estimates for the year 2000, on a cumulative basis and on assumptions of adequate productive investment, and a somewhat lower population growth (2 per cent *per annum*), range between a low of US$1,221 (1985) and a high of US$2,079 (both in constant 1985 US$).[11] The main parameters relevant to the achieving, exceeding or defying the growth target, are: the supply side of the resources equation (Y+i), that is national product *plus* net capital imports; distribution and efficiency of investments (the capital/output ratio); the related utilisation of capacity, dependent on the markets and the standards of human capital; and income distribution as a decisive incentive factor, apart from social and human considerations.

Concerning the living standards and income distribution, some changes for the better took place during the 1970s, until the crisis and turmoil of 1979–80, but since then deterioration set in, despite the resumed growth of GNP and restrained inflation in the first half of the 1980s. This shows the uglier side of the otherwise inconclusive controversy regarding the 'trickling-down' theory. For instance, while the GNP implicit price deflator for 1986 was 30.6 per cent, average consumer prices went up by an estimated 34.6 per cent and average labour earnings increased by 7.7 per cent only.[12]

Following the restrictive anti-inflationary measures, aimed at reducing inflation to at least 27 per cent in 1987, any improvement in income equality can be hardly expected in the short run. Distressingly, even official sources admit, for 1987, an average annual inflation of 32 per cent, and for December 1987 (as compared with December 1986) 48.9 per cent, while unofficial sources submit much higher figures of 40 and 59.2 per cent, respectively.[13]

In the long-range strategy, the dynamic and daring vision of substantial and sustained growth under non-inflationary conditions must be combined with such technological and production structural changes, which will generate more employment and more equality. Turkey's potentials in physical and human resources, the labour-intensive character of her exports, and prospects of closer association with EEC and other markets render a cautiously optimistic outlook feasible.

NOTES

1. *Briefing*, Ankara, 22 June 1987.
2. DİE, *Aylık ekonomik göstergeler*, vii–xii, 1986. Official high estimates of gross tourism revenues in 1987 are not corroborated by other sources, and, in any case, they should be juxtaposed with Turkish *spending* on tourism abroad (not yet available).
3. OECD, *Economic outlook*, 41, June 1987. Also, Mr Özal versus opposition statements in the Turkish parliament on 28 December 1987.
4. OECD, loc. cit.
5. Ibid. Also, DİE, *Monthly Economic Indicators*.
6. *Proceedings of the international seminar on Turkey in the Year 2000*, Istanbul, 18–19 June 1987.
7. *Economist*, 4–10 April 1987.
8. Compare my paper in *Proceedings* etc. Istanbul, 18–19 June 1987.
9. See *Proceedings* etc.
10. Izzettin Önder and Süleyman Özmucur, 'Turkish Economy in the Year 2000', in *Proceedings* etc., *op. cit.*
11. Compare my paper at the Seminar, *Proceedings*, etc. *op. cit.*
12. Calculated from DİE and OECD sources, quoted above.
13. DİE, *Monthly Economic Indicators*; *Government Programme 1987* and discussion in the Turkish parliament on 28 December 1987; Yusuf Özal's press conference, *Milliyet*, 25 December 1987, and *Tercuman*, 28 December 1987; *Tercuman*, 6 January 1988; M. Hiç, 'Madalyonun iki yüzu', *Milliyet*, 22 November 1987; also, the author's private sources. As for the near future, government circles prefer to speak of a 'reasonable rate of inflation', and seem not to attach to it the same importance as the opposition leaders, academics and foreign economic and financial bodies.

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ISBN 0-415-00388-1

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