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DEVELOPMENT BACKGROUND OF THE TURKISH ECONOMY, 1923–1973

I

The purpose of the paper is to give a broad outline of the policies and principal features of economic developments in the fifty-year period that has elapsed since the foundation of the Republic, with a view toward helping to evaluate future trends and policies, hopefully in the coming fifty years.

In the past, developments have been dictated on one side by the web of policies and decisions at the public and private level, and on the other side by changing internal and external conditions. As regards policies and decisions, we should distinguish between the few high level, strategic policy choices concerning the form and the content of economic development and the more numerous, more specific and variable policies and decisions taken at a lower level of generality and importance, in such fields as investments, money and credit, and taxes.

We are concerned in this essay with the more basic and fundamental policy choices of the period and with their fortunes and development during the period under study. In my view it is possible to establish certain basic and permanent trends persisting throughout the period, although with certain modifications, brought about by changes of emphasis in political and economic thinking as well as by changes in internal and external conditions. The continuity of the basic trends is a remarkable phenomenon in itself which must owe to deeper causes originating in economic as well as noneconomic sources.

Thus, it seems that the best way of approaching the future lies in the definition and the evaluation of the more permanent, strategic trends observable in the past. The future will, of course, bring many new factors and circumstances to bear upon the trends of the past and modify them. It is possible to speculate upon the nature of such future developments and upon the forms of the challenges they will create for the Turkish economy. As a starting point, it is reasonable to assume that the basic trends established in the past will continue to prevail in the future, and to try to determine how they will be affected, more or less, by probable future developments, internal as well as external.

I propose to approach my subject by isolating and defining the so-called basic, strategic trends and policies of the past, mainly by discussing the causes behind their emergence.

Experience and history teach us that noneconomic factors – political, strategic,
and perhaps cultural – always influence in varying degree the course of economic policy. This is illustrated by the example of Turkey, where, in addition to purely economic motives, these factors have been influential in shaping economic policies throughout the history of the Republic. No explanation of the economic history of the Republic would be complete without reference to noneconomic factors.

II

What were the main strategies and policies that have marked the economic history of this initial fifty-year period and have largely determined the form and content of economic development? Three major trends can be distinguished which came to the surface in the period before World War II and specifically during the 1930s. First and foremost among these basic strategies, the one affecting the form of the development process as distinct from its content, was the establishment in the middle thirties of the mixed economy framework through the creation of state economic enterprises. The second basic strategy consisted in the policy of industrialization also introduced in the thirties, a choice that was to weigh heavily upon the content of subsequent development policies. The third basic element was the undercurrent of economic nationalism that has made itself felt in the history of the Republic in various forms and degrees of intensity, down to the present. This trend also surfaced around the same time as the mixed economy framework and the industrialization drive of the thirties, although its roots certainly go back much further into the past.

It is quite clear that the 1930s, the second decade of the Republic, were crucial in bringing forth and establishing the principal trends in the streams of economic development, which have remained largely unchanged down to the present and are still active as major currents of thought and action today.

How do we explain the more or less simultaneous emergence of basic trends and policies during the thirties, a period that is also marked by a clear shift of economic issues from the background they occupied in the twenties to the foreground of the nation’s affairs? Is this state of affairs to be explained mainly by external conditions and the changes in the environment or is there also some inner force, some inner impulse at work?

The thirties witnessed, for the first time in the nation’s history, something like the beginning of an economic consciousness, a growing awareness of the importance and role of economic issues in the life and activity of the young Republic. During the economic congress convened in 1923 in Izmir, Ataturk had understood and openly referred to the importance of economic development for the country, but the growth of economic consciousness and the launching and the implementation of definite development policies had to wait another ten years. The pressing political problems of the years immediately following the foundation of the Republic, the concentration of meager budgetary resources upon the construction of a railway network linking the east of the country to the
west, the lack of preparation and thinking in economic affairs, all contributed to keeping economic issues and policies in the background. Foreign trade, upon which Turkey depended greatly as a source of supply of essential import goods, was developing favorably until 1929, the time when the world depression started and its unfavorable reactions on trade and on international liquidity began to spread rapidly throughout the world.

I think it is not a mistake to trace the first stirrings and efforts to evolve something like a national development policy to the events of the year 1930, when the world depression hit Turkish foreign trade very severely and caused catastrophic falls in the prices of agricultural commodities such as cereals, tobacco, and cotton, which were of prime importance to the predominantly agricultural Turkish economy and to the Turkish producer. The lowering of already low standards of life, caused by these developments and by concomitant increases in the burden of taxation, generated widespread dissatisfaction throughout the country.

Around this time, Ataturk began to turn his thinking toward a search for new solutions, both in the political and the economic fields. The late twenties had been marked by an authoritarian one-party rule accompanied by strict control of the freedom of expression and by the political domination of a small bureaucratic-military elite. In the economic field, the revenues yielded by state monopolies in tobacco, alcoholic drinks, sugar, coffee, and tea, established for fiscal purposes, and by heavy indirect taxes were barely enough to cover a modest budget, a large proportion of which was spent on defense and on strategic investments such as railways. The stifling of political and cultural activities, together with growing economic stagnation in the late twenties, led Ataturk toward a new political experiment, involving the creation of an opposition party and establishing freedom of expression in the press. One of the principal objectives of the political change was to induce free discussions on economic issues, out of which would hopefully emerge new solutions and policies. The Free Party and the period of complete freedom of expression were short-lived affairs, lasting only about five months. Apart from the underlying political and cultural effects of the new experiment, however, a serious discussion began in the parliament and the press, around the role of the state in economic life. Up to that time, the main interventions of the state in the economy had been the creation of state monopolies in various fields and the construction of the railway network through the budget. The Free Party argued for the abolition of monopolies, greater competition in the economy, and the easing of the excessive tax burden through a slower and more gradual railway construction policy. The Republican Party defended its interventionist policies, arguing mainly that pure liberalism was unsuited to Turkey. The new concept of etatism was used for the first time during these discussions by both sides, without, however, acquiring the more definite sense it was to receive during the middle thirties. For the Free Party, etatism meant various forms of excessive and restrictive state intervention in the economy, while the Republicans used the term in a more optimistic sense,
to mean the as yet undefined ways in which the state could contribute to the
development of the economy.

After the closure of the Free Party in November 1930, Ataturk allowed and
encouraged the continuation of discussions around future economic policy,
although in a more subdued fashion. The center of gravity of the discussion,
however, shifted somewhat. The question whether or not the state should
intervene at all in the economy receded into the background, while the question
of the possible forms of this intervention came to the center of attention. The
deepening world crisis and the impossibility of expecting a large-scale response
from private enterprise to the growing problem of meeting essential supplies
of manufactured goods, hitherto obtained from foreign trade, had convinced
everybody of the inevitability of some form of state intervention. The problem
developed into a choice between two alternative forms of state intervention:
Whether the state should take complete responsibility for the management of
the economy through the creation of comprehensive and monopolistic public
enterprises in all its main branches or whether intervention should take the form
of establishing and managing a certain number of government enterprises in
selected key sectors of the economy, operating in addition to existing or future
private firms. I have already discussed the ways in which this discussion pro-
cceeded, the main participants in it, and the consultations that took place on the
subject of economic development between the Turkish government and a Soviet
mission and American experts, in a paper submitted to the University of Chicago
conference, held in November 1973, on the occasion of the fiftieth anniversary
of the Republic, to be published by Türk Tarih Kurumu. I tried to show
in that paper the heavy political and social consequence implied in the choice
between the two alternative lines of policy then open to the Turkish govern-
ment, underlining the noneconomic factors influencing the issue. By 1933–34,
the thoughts of the government had crystallized around the policy of indus-
trialization through the creation of government enterprises in certain selected
sectors, a decision that created the mixed economy framework known at the time
as etatism, according to which economic development has proceeded to the
present. The above choice also emphasized the role of industry as the key sector
of development, a strategic choice that has continued to dominate thinking and
practice in subsequent periods.

A few comments are necessary on the nature of the two basic strategic
choices, the mixed economy and industrialization, as they seem to have been
conceived by their authors, in the middle thirties.

In the first place, it appears that the establishment of the mixed economy
framework was not intended to constitute a fundamental change in the economic
system, although government leaders and Ataturk sometimes loosely referred to
the new policy of etatism as something that was neither communism nor pure,
undiluted liberalism. That no fundamental change was intended is shown by the
absence of any move toward monopolizing the economy, in general, and the
sector of industry, in particular, under government enterprises. Quite to the
contrary, Law No. 3436 of 1938, which created a common legal framework for all government enterprises, expressly provided for the possibility of the eventual return of government enterprises to the public, through the issues of equity shares. Thus, the setting of a rigid frontier, of a dividing line, between the government and the private sector was not contemplated. Government enterprises were asked, in the law mentioned above, to behave in their operations exactly like ordinary profitmaking commercial enterprises. In other words, the price mechanism was kept as the final regulator for both sectors of the economy. Quite apart from measures concerning the new government sector, its intended behavior and its relations to private enterprises, the attitude taken in respect to the most sensitive issue in economics, namely, money and finance, reveals the conservative, indeed orthodox, strand in the economic thinking of Ataturk and his concern to preserve economic stability and the traditional functioning of the economy. In this respect the fact that there was no departure from the prevailing strict financial orthodoxy, when the big problem of financing the new industrial investments came up during the thirties, is very significant.

Thus, in the minds of its authors, etatism did not constitute a farflung attempt at ideological change, but represented a pragmatic response, both to the problems created by the world depression and to the more general issue of economic development, which consisted in lifting the Turkish people toward Western civilized standards. It was, in Ataturk’s words, a shortcut to speed up the process of westernization.

The same impression of the absence of a dogmatic, doctrinaire approach toward economic development is revealed by a look at the contents of industrialization as they appear in the first five-year industrialization plan adopted in 1934. Here, again, there are no signs of visionary and utopian thinking, of high-sounding industrialization model. The industries were chosen mostly on sound economic criteria, such as the availability of ready markets, substitution for essential imports, and the availability of internal raw materials. The largest investments occurred in textiles, an industry in which Turkey had a natural and historical comparative advantage, followed by iron and steel, cement and paper. Consumer goods industries predominated, although investment goods such as iron and steel and cement were also included in the program. Noneconomic considerations, however, such as social, cultural, and strategic factors, also played some part in the choice and the location of the new plants. Strategic influences could be detected in the decision to build an iron and steel plant which would supply railways and the armaments industry under the Ministry of Defense, in its economically unfavorable location, far from the Black Sea coast. The predominance of sociocultural factors over economic considerations was also evident in general location policy, most of the fourteen new plants constructed under the first five-year plan being situated at different localities in western and central Anatolia, while only two new plants were placed in Istanbul, already the largest industrial center of the country.

Decisions that ran counter to pure cost considerations, such as the regional
dispersal of industry and the dissemination of new plants in different localities, should be interpreted as socially, politically, and culturally motivated desires to spread the benefits of industry throughout the country and thus hopefully speed up the process of modernization.

I turn now to the third main trend in economic policy, namely, economic nationalism. Here we are up against a more elusive current of ideas, which seems to change in intensity and variety over time, something the roots of which go much further back into the past than industrialization and the mixed economy, and which is made up of various political and emotional elements.

One of the components of economic nationalism is the legacy of ideas and feelings built up during the Ottoman Empire around the capitulations and the foreign debts accumulated at the time. Toward the turn of the twentieth century, feelings were that capitulations and the debts were instruments used by foreign powers to intervene in the affairs of the country. The foremost desire of all concerned with politics, Ottoman officials as well as reformers and nationalists, came to center on getting rid of these infringements of national sovereignty. This was achieved in 1923 in Lausanne, but the feelings of reserve, verging sometimes on open hostility toward foreign capital and credits, generated at the time, have not totally disappeared even today.

Apart from the memories of the past, another set of motives was the tendency toward economic self-sufficiency that has marked, and still marks in various degrees and forms, the policies of many countries, developed and developing. Although economics pays lip service to the principles of comparative advantage and of international specialization of resources, when it comes to putting such principles into effect, politicians and even economists often take a different line in most countries. Some evidence of this attitude may be detected in the choice of investments under the industrialization plans of the thirties, in particular in the decision to build a self-sufficient sugar industry in Turkey, in spite of the large difference between home costs and world prices.

Finally, it seems that vague and emotional feelings of national pride and of reserve toward foreigners have also played a part, in various forms and degrees, in contributing to the trend of economic nationalism. In the case of Turkey, these feelings may have been reinforced by the large cultural and social gap existing between itself and the West.

Together, the several elements noted above have combined to feed the current of economic nationalism, the effects of which have been felt in various forms and intensities, although it is not easy to assess the forms and degrees of their impact upon policies.

III

After this examination of the causes behind the emergence of the basic strategies and trends in the economic history of the Republic, it is necessary to turn to the developments following World War II and examine how these strategies have fared in the more recent past. In particular, I want to address
myself to the question of evaluating the effects upon these basic policies of the big changes in the political, social, cultural, and economic fields that followed World War II. Were there major modifications as a result of changed conditions? What were the main pressures that acted upon the strategies of the thirties and with what consequences?

The picture of the far-reaching and varied changes that occurred in Turkey after World War II cannot be presented here in detail. It suffices to point out that in the internal political field there was a dramatic change in 1946 from the one-party system to a multiparty political system which broke up the monopoly that the Republican Party had established over Turkey's political life since 1923. The internal change was accompanied by an equally farreaching change in foreign policy, namely Turkey's alignment in the Western alliance, formally consecrated by Turkey's adherence to NATO in 1951.

Parallel to these political events, social and economic conditions were also changing profoundly. The rural countryside and the peasant masses were slowly coming into the national picture, as a result both of political participation and of the increased attention paid to agriculture in development policies. For the first time, a working class was emerging in significant numbers and acquiring a new consciousness of its existence through the passage of legislation allowing the formation of trade unions. Finally, groups of businessmen, managers, and traders were coming into the picture, partly as a result of the spur provided by wartime inflation and the almost complete wartime cessation of imports, to domestic economic activities, partly as a consequence of the spread of education and of contacts with the outside world.

More specifically, new factors were also appearing on the economic scene, the effects of which were to increase significantly the flow of resources available in the economy. These factors included the extension of military and economic aid to Turkey by the United States, thus increasing the flow of resources available for investment, both directly and indirectly, through relieving the budget of part of the military burden. The second factor consisted in the very favorable weather conditions prevailing between 1948 and 1953, which allowed an unprecedented expansion in agricultural output.

Finally, we have to mention the changes in the cultural and intellectual climate, which can partly be ascribed to the political, social, and economic changes referred to above. The fundamental factor here was, of course, the almost complete freedom of speech and writing brought about by the political changes in 1946. In addition, we may note the effects of a certain lowering of the cultural barriers surrounding Turkey, through slowly increasing intellectual, cultural, and artistic contacts with the West.

My problem here is to determine, as far as possible, the impact of the far-reaching changes of the post-World War II period upon the basic development strategies and trends initiated during Ataturk's time. Each basic element is taken up in turn, although there are obvious interrelations and interactions between them.
The mixed economy framework, or etatism, as it was still labeled in 1946, came under fire quite early after the war, both from inside and from outside the country. The state economic enterprises set up in the thirties presented obvious weaknesses and deficiencies owing to such factors as management rigidities, expanding bureaucracies, and repeated government intervention in their affairs. Costs were high and losses were incurred. These practical problems led some people to raise the more fundamental issue of the very existence of the state economic sector itself. Most criticisms raised by Turkish academics and businessmen, during the period between 1945 and 1950, were directed, however, at the weaknesses in the functioning of the mixed economy framework, exhibited by the poor performances of state economic enterprises. This led to demand for reforms, such as better management, greater flexibility, and autonomy for state enterprises. Another demand concerned the drawing up of a strict frontier in the economy, thus dividing it up between a field reserved for the private sector and one reserved for the state economic sector.

The most radical criticism came from the opposition Democratic Party, which went further than demanding purely operational changes and raised the whole question of the role of the state in the economy. The Democrats criticized the assumption by the state of directly productive activities, arguing that the state should restrict its intervention to the erection and operation of infrastructure installations such as energy, water, communications, and transport. In the Democratic Party’s election program of 1950, there was a statement to the effect that state economic enterprises would be gradually turned over to the public, when the Democrats came to power.

What followed the installation in power of the Democratic Party in 1950 turned out to be completely different from its original intentions and statements. Election promises were quickly brushed aside, with the consequence that the state sector was left to its own devices for a while. A few years later, though, the government began to launch new investments in the state sector. It also experimented with joint venture projects as between the state and the private sectors, mainly to circumvent the rigidities created by the basic law of 1938, regulating the operation of state economic enterprises. The policy of expanding investment in the state sector, mainly through inflationary financing, was continued by the Democratic government, until its downfall in 1960.

What were the causes of the resilience of the mixed economy framework during the fifties? I suggest they were both political and economic. First of all, the difficulties surrounding the valuation of assets, in the absence of a capital market, created an insuperable economic obstacle to the sale of state factories to the public. Second, the economic and political benefits that could be derived from using the government economic sector as an investment instrument were realized by the government. The possibility existed of using the state economic enterprises in policies of regional development and of spreading industries to various regions, in ways that private enterprises could not carry out, owing to prohibitive costs. Such possibilities also created vote-catching advantages in the
provinces involved. Finally, the state sector provided an important source of employment creation, which could also be used for political patronage purposes. These potentialities could turn out to have positive or negative effects, on balance, according to the wisdom and degree of soundness of the decisions they made possible.

In the end, the disadvantages outweighed the advantages and in the early sixties, the most urgent problems centered on the elimination of the economic distortions caused by the inflationary policies of the Democrats and the problem of avoiding the repetition of a number of politically motivated, economically unsound investment projects. So, minds were turning toward the search for economic and political reforms designed to prevent the recurrence of past mistakes. It was believed that the hoped-for solution lay in the establishment of a state planning organization, attached to the Prime Ministry and enshrined in the 1961 Constitution, as one of the constitutional organs of the Republic. This organization would draw up both long-term and yearly investment programs for the whole economy, which would be designed to maintain overall balance between available resources and intended expenditures, thereby preventing inflationary pressures. Further, these plans, after having been approved by the government and parliament, would not be exposed any more to the whims and pressures of political or local interest groups.

The question of deepest interest here is whether the introduction of comprehensive planning for the whole economy affected the framework and functioning of the mixed economy. More specifically, did the thinking behind the establishment of planning represent a change in emphasis concerning government intervention in the economy, a move toward larger state control of the operation and of the investments of the economy? Undoubtedly, there were people in Turkey, both inside the plan organization and outside it, who tended to consider the role of the government in the economy on ideological lines and hoped the outcome of planning would be that the government assumed an overriding control of the economy, in all its sectors. Following a conflict over fiscal policy between the then leaders of the plan organization and the first elected government after military rule, the ideological way of looking at planning retreated and became a minority view in parliament and in the country. The role of the plan organization was accepted as essentially advisory. The investment programs it drew up would be binding only on the state sector and would insure the necessary degree of coordination both within the sector and between itself and the private sector. It should also be noted that the 1961 Constitution, in addition to setting up a plan organization, had reaffirmed its belief in the principles of the mixed economy and proclaimed it as the official economic regime of the country.

Constitution or no constitution, the mixed economy continued to serve as the framework of development under the civilian coalition governments, the Justice Party government, and the coalition governments that followed it, till the present time. Since all reforms directed at the state economic enterprises, especially the attempts made after 1961, have failed, the state economic sector
has continued to present problems and burdens to the economy and the private sector has, in recent years, become the most dynamic sector. The mixed economy framework still retains enough strength and advantages to give it an unquestioned status as the dominating economic regime.

The second basic strategy of development established in the thirties was industrialization. Under the conditions prevailing during the thirties and within the framework of etatism, the initial stimulus to industrialization was to come from state investments, although there was no necessity for state predominance in industrial investments to continue forever. Quite the contrary, no obstacles were put in the way of private activities; indeed, provisions were made in the basic law of 1938 about allowing eventual sale of state economic enterprises to the public. Thus, the original intention was that industrialization would eventually acquire a broad basis and spread throughout the economy.

During the thirties, however, industrialization was taking place within what was essentially an unbalanced economic development policy. During the period 1933–1940, the manufacturing industry was receiving 20 per cent of the total resources allocated to investment, while the railway investment undertaken by the state absorbed 17 per cent of the same total. On the other hand, investments in agriculture, by far the largest sector in the national economy, amounted only to 17 per cent of the total.¹

This pattern of investment indicated the presence of a distinctly unbalanced development policy. In the absence of a large integrated national market arising from the insufficiency of purchasing power and the lack of a comprehensive infrastructure network, early industry still remained a rather artificial affair, with little cumulative, automatic movement behind it.

Essentially, the industrialization of the thirties could be characterized as supply led. How did this movement fare under the different conditions that followed World War II? It is difficult to imagine that the unbalanced type of development, with its heavy emphasis on industry, could have continued for long under any circumstances. Eventually, industrial development would have required the emergence of a large market and the establishment of infrastructure facilities as essential preconditions. Other requirements were the growth of such factors as enterprise, organization, salesmanship, trained labor supplies, and the like.

The shift toward a more balanced development policy was made possible by the large increase in the volume of resources available for investment, arising from the foreign aid program started soon after the end of the war. As a result, the shares of agriculture and of infrastructure (public utilities, energy, water, transports) rose respectively to 21.7 percent and to 29 percent of the total, while the share of industry (including mining) rose less sharply to 22.8 percent during the period 1950–1958.² This represented a more balanced development

² Ibid.
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approach, which made a broader-based development possible. The large increase of the order of 45 percent in real terms in agricultural output during 1948–1953, owing partly to favorable weather conditions, led to increases in the demand for industrial products and contributed to the gradual growth of an integrated national market.

As a result, a different pattern of industrialization began to emerge in the fifties, in the form of the growth of private industrial enterprises. The rate of growth of private large industry was greater than that of state industry during 1950–1954. Between 1954 and 1959, however, the rates of growth of production in both sectors became more or less equal, as shown in the table, indicating the volume of employment in the so-called ‘large industry’ sections within the state and the private sectors. The table brings out the different rates of expansion in the state and the private sectors during the period 1950–1959. The position in 1950 reflected the growth in employment in the state sector during the thirties and the forties. This sector started with low employment in the thirties to arrive at a position of near equality with the private sector, the activities of which began in the period before World War I. Between 1950 and 1954, employment in the state sector increased very little, whereas it showed a big jump in the private sector, with the result that in 1954 its share of employment had increased considerably over that of the state sector. Subsequently, investment and production in the state sector was boosted strongly following the change in the investment policy of the Democratic Party government. Employment in the private sector increased at a rate more or less equal to that of the state sector.

The growth of the private sector in industry constituted essentially a response to the market forces that were emerging in Turkey after World War II. Here, I venture to suggest that the emergence of such a response is not always the automatic spontaneous mechanism that economic theory assumes. The volume and quality of this response depends upon material, physical factors as well as upon much more intangible, invisible conditions. The existence of an adequate infrastructure is the most important physical factor. Invisible factors include

<table>
<thead>
<tr>
<th>Sector</th>
<th>1950</th>
<th>1954</th>
<th>1959</th>
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<tr>
<td></td>
<td>Number</td>
<td>Percentage of total</td>
<td>Number</td>
</tr>
<tr>
<td>State</td>
<td>76,000</td>
<td>46</td>
<td>86,000</td>
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<tr>
<td>Private</td>
<td>89,000</td>
<td>54</td>
<td>134,000</td>
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<tr>
<td>Total</td>
<td>165,000</td>
<td>100</td>
<td>220,000</td>
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Source: Haluk Cillov, Türkiye Ekonomisi, İktisat Fakültesi Yayını No. 132 (İstanbul, 1962).
psychological attitude, training, education, organizational ability, and risk-taking. These are probably more difficult to develop than material factors and take a longer time to establish themselves.

The 1950s witnessed the beginnings of such a response, which was partly interrupted and distorted by the violent inflation of the middle fifties and by the arbitrary intervention of the government in the economy to stop price increases. The return of more stable conditions after 1960 enabled the movement to regain its momentum and dynamism. This is best illustrated by looking at the trend and composition of total investments in manufacturing industry between 1963 and 1970. Out of a total investment of 20.2 billion TL carried out in this period, the private sector’s investment came to 13 billion TL, or 64.4 percent of the total, while the government sector’s investment was 7.2 billion TL, or 35.6 percent of the total.

Summarizing the course of industrialization during the time of the Republic, I suggest that it got under way during the thirties as a supply-led movement under the direction of the state and developed gradually into a demand-led movement after World War II. The movement then derived most of its momentum and dynamism from the growth of the private sector. Industrialization still presents serious weaknesses, however, and its roots are fairly fragile. I touch on these aspects in the evaluation presented at the end of this section.

I turn now to the third trend of ideas influential in determining the shape of policies and actions throughout the fifty-year history of the Republic, namely, economic nationalism.

Feelings of nationalism, when they take the forms of pride in one’s own country’s achievements, of satisfaction at well-deserved successes, and of desires to see one’s country do even better in the international competition in the fields of economics, politics, science, and culture are constructive and positive forces, impelling us toward greater creativity and activity. When such feelings take the more extreme forms of thinking of one’s own country as always absolutely superior to all other countries, of considering foreigners not only inferior, but as hostile and potentially dangerous human beings, of refusing to cooperate with foreigners on a footing of give and take, they become dangerous and even destructive currents, which can gravely harm the country that harbors them.

This ambivalence, this potential of creativity or of destructiveness, applies also to the feelings of nationalism in the economic field. I have alluded above to the components and to some of the manifestations of such feelings during the period prior to World War II. I turn now to the difficult question of defining and evaluating developments and changes that have occurred in this current of feelings in the period following World War II, down to the present time. Can we say that the passage of time and the farreaching changes in internal as well as external conditions which occurred after World War II have particularly softened the degrees and directions of these feelings?

Some authors, and in particular the well-known writer on Turkish economics, Z. Y. Hershlag, have expressed rather radical views in this respect. Hershlag, in
his book about Turkey, has referred to the fact that the acceptance of foreign aid in the form of the Marshall Plan by Turkey in 1948 constituted, for a country full of nationalist apprehensions and feelings of isolation, a fundamental change in the theoretical framework of the etatism of the thirties.3

I have expressed elsewhere doubts about the fundamental nature of such a change4 and put forward the view that feelings of nationalism have been more persistent in Turkey, while presenting a certain amount of fluctuation in their intensity.

Without doubt, the various moves made by Turkey after World War II toward political and economic international cooperation, such as its participation in the Organization for European Economic Cooperation, in the World Bank, in the International Monetary Fund, in various United Nations organizations, the Food and Agriculture Organization in particular, in the Council of Europe, and finally, after 1960, with the European Economic Community, have represented a loosening of the feelings of nationalist apprehension and isolation, especially on the official level. Other signs of such a relaxation were the passage of legislation in 1951 concerning the encouragement of private foreign capital investment in Turkey, followed by the amendments made in the same law in 1954, relaxing provisions about the transfer home of foreign capital and profits. Another important step was the passage of the Petroleum Law in 1954, allowing foreign companies’ exploration and exploitation rights in Turkey.

Probably, the stiffest test of willingness to accept the give and take involved in international cooperation was provided by Turkey’s experiences with international bodies such as the Organization for European Cooperation and Development, the IMF, and the World Bank. This type of cooperation requires, up to a point, certain concessions in absolute sovereignty rights, since, although ultimate responsibility for decision-making in domestic fields still lies with national governments, for international cooperation to be fully successful, cooperating governments have to explain their policies to international bodies, and, in certain cases, to be prepared to take into account the views of international organizations with decision-making powers in international finance.

Quite early in the experiment of international cooperation, a certain number of frictions and difficulties arose between Turkey and some of the international bodies referred to above, which, I think, can be partly explained by the Turkish government’s narrow understanding of national sovereignty.

Thus, after 1952, relations between Turkey and the Marshall Plan organization OEEC passed through a difficult phase, owing to the unilateral de facto suspension of trade liberalization measures multilaterally agreed within OEEC in 1951.5

Another problem came up a little later in the field of relations between the Turkish government and the World Bank. Remarks made by the World Bank representative in Ankara to the prime minister over allegedly inflationary aspects of Turkish monetary policy were considered as an unacceptable case of interference in domestic affairs by the Turkish government, which asked for the termination of the Ankara mission of the World Bank. Subsequently, relations between the government and the World Bank were broken off and remained suspended until after 1960. A similar problem occurred in 1954, when the report prepared by Professor Hollis Chenery on behalf of the Foreign Aid Mission in Turkey, on the subject of investment and national income in Turkey, was rejected by the government as constituting an unwarranted criticism of domestic policies, and all available copies of the report were ordered to be destroyed.

The currents of nationalism, more particularly of economic nationalism, continued to express themselves in ambiguous, even contradictory ways in the 1960 decade down to the present time. Positive as well as negative developments appeared in different fields and seemed to co-exist with each other.

A remarkable positive development, indicating a loosening of nationalist apprehensions, appeared in the form of the growing emigration of Turkish workers to Western Europe. The decision to seek work abroad, in a foreign cultural climate and under conditions of severe competition and work discipline, represented a courageous jump into the unknown for hundreds of thousands of workers and peasants. Such decisions denote a definite lowering and loosening of the feelings of apprehension and isolation, which may have prevailed until then. The success of this large-scale spontaneous and voluntary experiment and the fairly smooth adaptation of the Turks to the conditions in Western Europe clearly show that rational and economic motivations can eventually overcome cultural and nationalist barriers.

On the other side, negative developments in the form of a hardening of nationalist feelings appeared, when a period of complete freedom of expression followed the censorship of ideas during the late fifties. New currents of ideas emerged in the field of politics and economics, with aspects seemingly hostile to foreigners, or at least hostile to the Western World, in some political and academic circles, and in sections of the press. A variety of motives and ideas were at work behind the left-oriented ideological currents. A detailed analysis and evaluation of these currents is beyond the scope of this paper, and I restrict myself to pointing out the wide use of nationalist feelings and apprehensions made by the proponents of the new currents, when presenting them to the public at large. The unilateral treatment of the effects upon the Turkish economy of foreign capital inflows and of international public developmental assistance by writers belonging to new schools of ideas represents one instance of the appeal to such nationalist feelings and apprehensions.

Probably, the most decisive test of Turkey’s orientation in foreign as well as domestic economic policy lay in its relations with the EEC and in the fate of

Ibid., p. 16.
the Treaty of Association signed in Ankara in 1963. The political implications of the Treaty were quite clear and they constituted the principal reason why successive Turkish governments have made the continuation of the association a cornerstone of their foreign policy. The economic implications of integration were not so clear, however, and they have formed the subjects of controversy and discussion during the past fifteen years. The main bone of contention lay in the question of determining whether the effects of economic integration with Western Europe would be bad or good for Turkey. The pessimists, the majority of whom belonged to leftist circles, were arguing that, as a result of integration, the poorer side (i.e., Turkey) would become even poorer, while the richer side (i.e., Western Europe) would get even richer. The arguments they used were often presented in emotional national terms. Thus, the Western Europeans were accused of harboring intentions of turning Turkey into a sort of permanent backyard garden and of destroying the newborn and fragile Turkish industry. The people in favor of integration stressed the overall economic benefits that would eventually flow from the freer flow of all factors of production between Turkey and the EEC, and pointed out the benefits and eventually the necessity of finding a larger market for Turkish industry if it was intended to grow rapidly and compensate the harmful effects of the past rigid policies of industrial protection.

IV

This survey of the evolution of the three trends which I defined as the basic development strategies, from the time of Ataturk down to the present, has, I think, brought out the remarkable degree of continuity they have maintained and the influences they have exercised all along, over the form and content of development policy in Turkey, despite the many farreaching changes in conditions that have occurred since then. This survey has concentrated on the factors and motivations that have led to the emergence of these trends and, later on, to their continuity through time.

My own evaluation of overall results in terms of economic development, an evaluation that is bound to be impressionistic and general, is that on balance the economic strategies laid down in the early thirties have had, singly and in combination, positive effects in initiating and maintaining a movement of economic development in Turkey. Naturally, we are still quite far from being near the levels of economic prosperity achieved by neighboring Western Mediterranean countries, such as Greece and Italy, not to speak of the levels of the more advanced Western European states. The crucial questions in economic development, however, turn more on the momentum that development acquires through time than upon, say, the actual level of income per head achieved at any time or upon disparities in per capita income among different countries. The essential problem is that of achieving a self-generating, self-sustaining movement, which no longer depends on any outside stimulation or artificial support that may have
been necessary at the outset. Following the thinking and terminology of Walt Rostow, once a broadly based, spontaneous movement has come into existence, the question of development has really been solved, or to put it more mildly, is securely on the way to a solution. This is because development means the creation and spread of many individual and corporate initiatives and energies directed at economic ends. Once they are brought into being, these initiatives and energies will then continue expanding and developing on their own. I believe this is what Rostow described as self-sustaining growth. It has to be pointed out that a self-sustained economy does not mean an economy that is able to grow by simply relying on itself and on its own resources, as is sometimes mistakenly believed. On the contrary, it means an economy that is growing by relying both on itself and on other national economies, through the expansion in the volume of its exchanges of goods and services with other nations. The notion of national economic independence, which is often linked to the concept of economic development in Turkey and in other developing nations, does not imply the achievement of economic self-sufficiency or the acquisition of a growing capacity to do without foreign trade or without international exchange of services and of factors of production. On the contrary, growth and national economic independence in this sense are completely incompatible in our modern age. The notion of national economic independence, if it has any meaning at all, indicates the capacity of developing the national economy, through its ever-growing integration with the world economy, without artificial support from outside, such as foreign assistance on concessionary terms.

The question is whether Turkey has achieved or is nearing a state of self-sustained development in this wider sense, through the development strategies it has been following in the past forty to fifty years. I have suggested that the evaluation should go beyond studying and comparing rates of growth of GNP or levels of income per head. A few words should be said, however, about the trends in the main indicators of development.

Taking the growth rate during the periods when figures are available, we observe on the whole, a more or less marked rise in total and per capita growth rates, as between the pre-World War II and the post-World War II periods. Thus, in the nine-year period 1927–1935, before the state industrialization drive got going, the total growth rate in national income amounted to 30 percent, represented roughly an average growth rate of around 3.3 percent per annum. In per capita terms, the total increase over the period was only 12 percent, representing roughly a yearly growth rate of 1.5 percent per annum. In the four-year period 1935–1938, however, the global growth rate in national income amounted to around 25 percent, indicating roughly a yearly growth rate of around 6 percent, and a per capita yearly average growth of almost 4 percent.\(^7\)

Following the interruption caused by World War II, we turn to growth rates during the periods following the War. Between 1950 and 1960, the average

yearly growth rate comes out at around 6.3 per cent, while the per capita figure for the same period is 3.4 per cent. During the 1960–1970 period we observe a drop in the first half of the decade in the global growth rate to 5.3 per cent, and in the per capita rate to 2.1 per cent. A rise occurs in the second half of the period, however, both in the global and in the per capita growth rates, to 7.2 per cent and 4.7 per cent, respectively.

The picture, in terms of rates of growth, shows that, since 1935, apart from the interruption owing to World War II, the global growth rate of the economy has fluctuated between 5 and 7 percent per annum, while the per capita rates have fluctuated between 2 and 4 percent per annum. The fluctuations in the per capita rate are influenced by changes in the population growth rate which has shown a marked increase in the period following the War. The yearly rate of increase, derived from population censuses, had fluctuated within the ranges of 1.7 and 2.1 percent between 1928 and 1940. In 1950–1970, the rate began fluctuating between 2.8 and 2.5, indicating a marked increase in population pressure over the past.

If we try to evaluate the performance of the Turkish economy in terms of rates of growth achieved during past periods and compare Turkey's position with other countries, our first impression is that Turkey's position in the so-called growth league has been an intermediate one during the past decade or so, neither at the top of the table with such leaders in growth as Japan, Brazil, South Korea, lately Iran, averaging 9–10 percent per annum, nor at the bottom of the table with the large Asiatic countries (India, Pakistan) and many of the African countries, averaging 4 percent or below per annum. Turkey's performance has been a rather steady one, with an average of around 6 percent annually. This comparison suggests that there may be some potential for improvement in the Turkish performance and that all is not well with the functioning of the Turkish economy.

Evaluations and comparisons in terms of overall growth rates may be misleading. The more important question centers on the depth and the scope of the development that is emerging. In this respect, the strategies of the mixed economy and of industrialization have performed well. In the mixed economy approach, the state's function was essentially that of a pioneer and of a stimulator of development. There was no question of the state attempting to do everything and of monopolizing the entire economy. The state intervened both with a view to supply entrepreneurship in the required industries and to stimulate the growth and extension of personal and corporate initiatives through the economy. The growth of the private sector after the War bears testimony to the wisdom of the mixed framework. This conception of the mixed economy has been dovetailed with the strategy of industrialization with seemingly effective results. Although the operation of the mixed economy has not gone without problems, it has

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8 Ibid., p. 280.
succeeded in largely broadening and deepening the inevitably one-sided, narrow type of development inaugurated in the thirties, not only within industry itself, but also in other fields of the economy such as services, transport, and banking. In this sense, a self-sustained type of development has gradually emerged during the fifties and the sixties. Of the problems that have emerged with the operation of the mixed economy, the essential one seems to arise from the dual role that the state has to assume within such a framework. On one side, the state has to carry ultimate responsibility for the overall guidance and proper functioning of the whole economy, with all its sectors. Its role here is that of a final and impartial referee who insures that the game is properly played and that all the players observe its rules. On the other hand, the state has become one of the players in the same, since the economic enterprises it controls operate, side by side with private enterprises, under the price mechanism. Therefore, a conflict of interest may arise from the dual functions of the state, which is not always resolved in the best interests of the economy, seen as a whole.

The most important field where this conflict of interest may be harmful is in the allocation of scarce resources, such as capital and foreign exchange to all sectors and firms within sectors. Eventually, the proper functioning of the economy and the optimum allocation of its scarce resources will be achieved not by legislative or administrative regulations but under conditions of equality and through the operation of market mechanisms. For instance, the mechanism regulating the distribution of the supply of capital throughout the entire economy should be essentially economic in nature and be based on the indications given by the rate of interest, moving more or less freely, according to demand and supply. Legislative and administrative regulations which force the supply of capital into specific channels, say into the state economic enterprises, under terms that do not reflect market conditions, will lead to losses and to a wrong distribution of the existing scarce resources. This can eventually become a heavy drag and burden on the expansion and growth of the economy. When the state sector was being established in Turkey during the thirties, legislative and administrative arrangements were made to channel, more or less forcibly, financial flows toward the state economic enterprises and state financial institutions. This intervention was probably necessary in the initial phases of the erection of the state sector, but it has persisted far too long, through the history of the mixed economy, with unfavorable repercussions upon resource allocation.

The strategy of industrialization is presently regarded as a sine qua non of development almost everywhere. There are, of course, countries that provide a more suitable ground for industrialization than others. Turkey is a medium-sized country with enough natural resources and reserves of manpower to justify extensive industrialization on economic grounds. The strategy of industrialization seems also to be based on general modernization and cultural transformation grounds. It is not possible to deny the existence of the interplay between the changes in material conditions brought about by industrialization and concomitant social, cultural, and political transformation.
Thus, the evaluation of industrialization within development turns more on the suitability of the possible types or forms of industrialization than on whether or not industrialization itself is required. Should industrialization follow predetermined lines, laid down in some theoretical model, or should it develop according to the existing and evolving capabilities with respect to industrial organization and production, on one side, and to the pattern of demand for industrial products, as expressed in the markets, on the other? This question has been raised in recent years by critics of Turkey’s experiences in industrialization. The critics are in reality opposed to the market system itself and would prefer industrialization to take place along a theoretical model rather like the Soviet one, instead of developing gradually and pragmatically. In this line of thinking, heavy industries and machine-making industries should be developed first, to be followed or accompanied by intermediary goods industries, with consumer goods industries coming last. Only an industrialization in this form would constitute real, deep, and solid industrialization. Any other forms are labeled as shallow, superficial, or artificial. By way of refuting the above theories, it seems enough to point out that whatever soundness and solidity exist in industrialization in Turkey have been precisely due to its market-oriented and demand-led character.

The weaknesses that exist in Turkish industry, both in the state and in the private sectors, have come from the inward-looking bent of economic policy and the extreme, absolute types of protection under which industries have developed. There is an irrefutable economic ground for protection in the initial phases of industrialization, but if protection takes the form of import prohibitions and other quantitative restrictions and if such protection is continued for a very long time, weaknesses are bound to develop. In Turkey, such policies of protection have been the rule during the past twenty years and feelings of economic nationalism have played a part in producing them. The results have been the creation of high-cost firms, below optimum size, working under capacity to share a limited domestic market, in many branches of industry. Firms in the state sector have suffered the consequences of lags in technology and of high capital costs owing to long investment gestation periods, the outstanding example being the state petrochemical industry. It is only in recent years that the dangers of isolating industry from world markets have been realized, with the help of the impact of the Association Treaty with the EEC and the need to find larger markets for expanding industry. There has been a welcome tendency for the share of industrial goods in total exports to grow, especially in the field of textiles, leather goods, and cement.

I have already referred to certain positive and negative developments flowing from nationalist feelings of isolation and apprehension. This is a difficult and elusive subject to evaluate, but I would venture the opinion that it is the most important and crucial field in the future of Turkey’s economy. The present developments in the world economy, such as the growth in international capital movements, the formation of large trading blocs among countries, the rapid
developments in technology in Western countries and the increasing necessity for developing countries to transfer technological knowledge from abroad, and the extension of the operation of multinational companies all over the world, make it clearer every day that the days of following the paths of inward-looking nationalism and of seeking ways to ensure self-sufficiency for a single country are passed. No nation that wants to continue to play a part in the world, both economically and politically, can afford to turn its back on the world and rely on self-sufficiency for its development.

In spite of Turkey's official cooperation with international economic groups such as the EEC and OECD, uncertainties and contradictions still remain in her foreign economic policy and in her attitude toward international economic integration. Examples of such uncertainties are the continuing ambivalent attitude toward foreign capital and foreign finance, nationalist tendencies interfering with the proper way of developing technology, and the hesitations in making moves toward liberalization in foreign trade and international payments.

The question of the participation of foreign capital and finance in Turkish enterprises is of great importance, because one of the principal problems confronting Turkish enterprises at present is that of long-term and medium-term financing to cover fixed and circulating capital requirements. The official line taken up in the Third Five Year Development Plan (1972–1976) is that capital requirements necessitated by the very large investments foreseen in the plan will be covered almost exclusively through internal savings. Apart from the openly unrealistic nature of such assumptions, it is difficult to understand how the plan reconciles its indifferent, almost negative approach toward foreign capital with the principles of encouraging the flow of factors of production across the frontiers, embodied in the EEC with which Turkey is associated.

It is possible to prolong the list of cases where uncertainties remain with respect to Turkey's attitude toward foreign economic relations. Partly, these uncertainties and hesitations arise from the legacy of deep-rooted nationalist feelings existing among the people and especially among the bureaucracy. Such apprehensions, on the other side, are exploited by some left-wing circles to foster hostility toward the West. Partly, the problem comes from the very difficult cultural transformation process within the dual culture of present-day Turkey. It may perhaps be unfair to ask for too rapid and drastic changes in deep attitudes and feelings, although Turkish workers abroad have shown a capacity for quick adaptation. It is more justified, I think, to demand that some of the immediate contradictions marking foreign economic policy be lifted so that all concerned can at least know where they stand.

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