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Turkish Economic Development: The First Five Year Plan, 1963–67

*By Wayne W. Snyder**

SUMMARY

This article evaluates the effectiveness of Turkey's First Five Year Development Plan (1963–67) in achieving both its domestic and its international objectives.

A target of 7 per cent for the G.N.P. growth rate was nearly achieved, but individual sectors diverged from the plan. Agricultural and manufacturing output increased only about three-quarters as fast as planned, while the construction and service industries exceeded the planned rate. In agriculture, neither new investment nor, more important, the dissemination of new techniques proceeded as rapidly as expected. Insufficient amounts of well-organized investment projects, foreign exchange, and domestic savings (especially in the public sector) impeded the full achievement of the desired manufacturing capacity. In addition to failing to raise public revenue as much as planned, the principal shortcomings in policy formulation and execution were an overvalued currency which necessitated exchange controls and distorted the allocation of resources, the continued reliance on price regulation, and the failure to reform adequately the State Economic Enterprises. Reliance on foreign aid was reduced, but more aid will still be required before sustained growth is achieved.

In spite of these shortcomings, substantial progress was accomplished during the First Plan without the inflationary pressures and other imbalances which characterized the 1950s. However, Turkey could be developed more rapidly if more appropriate policies were followed.

Forty years ago Kemal Atatürk began the transformation of Turkey into a modern industrialized nation, a task which was interrupted by his death and the Second World War. While progress was renewed in the 1950s, it was accompanied by substantial inflation and other imbalances, factors which eventually contributed to the 1960 revolution.

Less than a month after the May 1960 revolution, a seventeen-man cabinet, composed almost entirely of civilian technicians, forwarded to the Turkish military junta a list of fifteen matters requiring urgent attention; eleven were directly related to economic matters.[1] One of the junta's earliest acts was to create a State Planning Organization (S.P.O.) and direct it to prepare a fifteen-year development programme, and when a new constitution was approved by a national referendum it formally

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incorporated the principle that 'economic, social and cultural development would henceforth be based on a plan', prepared and executed by the newly formed S.P.O.[2] The general objectives of this programme, and the aspirations, targets, strategies, and policies of its initial instrument, the First Five Year Development Plan (1963–67) were described at the *beginning* of the first plan period,[3] but little has been written on what has actually happened. My purpose here is to evaluate how effective the First Plan's policies have been in achieving both domestic and international objectives and to suggest some implications of this experience, after briefly recalling the conditions which prevailed in Turkey during the 1950s and the structure of the planning system instituted after the 1960 revolution.

I

The decade which ended with the 1960 revolution included unprecedentedly rapid economic growth, but this was accompanied by erratic and distorted development. With the population growing by about 3 per cent annually and G.N.P. by over 5 per cent, between 1950 and 1960 *per capita* income increased substantially. Growth was considerably faster up to 1955, however, when the amount of cereal-producing land was expanded greatly by cultivating most of the State, unowned and village common grazing pastures, without any noticeable increase in crop yields, a once-for-all process.[4] Public expenditures were maintained at a high level and considerable progress was undeniably achieved in providing a broad infrastructure upon which a sound future could be built, but it is equally true that a near phobia against planning prevailed which led to a wasteful use of Turkey's scarce resources. The immediate effects were inflation and balance of payment deficits which used up all of Turkey's international reserves and contributed to an accumulation of U.S. $1 billion in foreign debts. Although a stabilization programme was half-heartedly begun in late 1958, by the eve of the revolution Turkey was virtually bankrupt and was heading towards political and economic disaster at an ever increasing rate. Immediately following the revolution, the junta gave a high priority to economic planning, perhaps—as has been suggested elsewhere—because it was composed principally of military men for whom planning was a cardinal principle.[5]

The plan organization consists of two bodies, the High Planning Council and the S.P.O. itself. The S.P.O. is unusual by world planning standards in that it is quasi-political although formally staffed by civil servants. Its executive organ, the High Planning Council, is composed of the Prime Minister or his deputy, three ministers elected by the Cabinet, the head of the S.P.O. (Under-Secretary for Planning, nominally a civil service post), and the heads of its three departments: Economic Planning, Social Planning and Co-ordination. Thus the principal directors of the S.P.O. are not only responsible for recommending economic policies, but through their own participation on the High Planning Council they are charged with approving policies—at least so far as decisions of the High Planning Council bind the government itself. This ambiguous situation, midway between political and non-political, has been a continual source of frustration to the directors of the S.P.O. Understandably, the Parliament has not always approved the proposals made by the S.P.O. and the resulting conflicts have led to a series of resignations by S.P.O. officials which has seriously undermined the initial enthusiasm with which economic planning was begun. A typical example of the kind of problem which has occurred is discussed in the next section.

II

Except for the specific target of 7 per cent for the G.N.P. growth rate, most of the other objectives of the fifteen year development programme were left rather vague, e.g. 'to keep migration to the cities on a level with new jobs' and 'to give modest dwellings preference' and 'achieve equality both between groups and regions'.[6] The First Plan, for 1963–67, contained a much more specific set of objectives designed to achieve the growth target. Rates of investment and its composition, consumption, output, and public revenue and expenditure were determined by means of a macro-economic growth model, based on previous trends and adjusted for the structural changes incorporated in the plan. One result of this approach was that the First Plan was much more a set of consistent economic relationships than a detailed investment programme. The planners did not have time to prepare the sectoral studies necessary for a complete investment programme. Specific sectoral investment targets and particular project proposals were left to be determined in a series of official annual programmes to implement the First Plan. Throughout the plan period, however, the lack of well-organized investment opportunity surveys remained a major bottleneck and was one of the reasons why planned investment in the public sector failed to reach the planned level and why the allocation of private investment diverged from the intended pattern.

Another reason for the gap between actual and planned investment was that neither public revenue nor saving reached the intended level, although a principal strategy of the First Plan was to raise both by introducing new taxes and increasing some tax rates while holding the growth of current expenditures in line with G.N.P. itself. The new taxes and changed rates were expected to come into effect during 1962 and 1963, raising the total level of domestic revenue from a fairly stable average of 13 per cent of G.N.P. during the 1950s to 19 per cent by 1963. Afterwards, the new taxation structure was intended to provide at least an 8 per cent annual increase, somewhat greater than G.N.P.[7] The main new tax proposed by the S.P.O. was a complicated system of agrarian taxes (based on an unpublished report by Lord Balogh), justified on social grounds because agricultural income had not been taxed directly since the early 1950s, while the existence of large landowners warranted their supporting a larger share of the national tax burden. While the typical Turkish farmer is badly off, the distribution of net income earned is very unequal. In 1952, 70 per cent of the farming families received only 25 per cent of total agricultural income, while the top 10 per cent received 50 per cent.[8]

Parliament accepted the First Plan's 7 per cent growth target, but refused to pass the proposed tax legislation, turning a deaf ear to the planners' insistence that 'they could not have their cake and eat it too'. After pointing out this internal inconsistency, the principal personalities associated with preparing the plan resigned rather than assume responsibility for what they considered a certain failure.[9] This problem of policy recommendation and partial approval all within the same organization has been an important factor explaining why there have been six heads of the Economic Planning Department since its creation in 1961.

While the planned upward shift in the total tax schedule was not achieved in 1962–63, many minor changes were made and together they constituted the most significant increases in a decade. Individual income tax rates were increased and the effective corporate tax rate was increased from 23 to 36 per cent. The single most important new revenue, aside from revised tax rates, has been a compulsory savings bond scheme introduced in 1962. In addition, many indirect taxes have been increased—principally those applying to imported commodities—and some new, but less important, indirect taxes imposed. The new and changed taxes represent an important effort to implement the First Plan's revenue-raising policy, although several delays occurred in introducing them. As a result the upward shift in revenue was neither as large nor as fast as planned; nor was the marginal tax rate increased as much as planned. By 1967, the central government's domestic revenue had risen to about 18 per cent of G.N.P., instead of the 20 per cent target. But while the government does not have enough revenue to implement fully its planned investment programme (for which the overall realization has been about 85 per cent in constant prices), the level of revenue is now substantially higher than the virtually constant 13 per cent of G.N.P. in the 1950s. By holding current expenditures to about the planned level of an 8 per cent yearly increase, and reducing investment, the government avoided large-scale deficit financing.

The same cannot be said of the State trading agencies, which borrowed about twice as much from the central bank as the government itself did. But the combined deficits of the government and the State trading agencies were not a major source of inflationary pressure which was not large anyway during the First Plan period. There is another dimension to the problem of the deficits of the State trading agencies which is at least as important as their inflationary potential. These deficits result mainly from the subsidized prices of certain agricultural commodities. For exported products (e.g. tobacco and hazel nuts) this may be justified by the high shadow price of foreign exchange, and even the subsidized price of wheat may help some to reduce demand inflation by encouraging production. Undoubtedly some price support policies are desirable, but the choice needs to be made more explicit by providing the subsidies through the central government budget. Because there are restraints on the amount of short-term indebtedness to the central banks, the trading agencies' deficits reduce the amount of funds available to the government for productive investment or other development projects.

In spite of new laws and policy statements regarding how these and the other (industrial) State Economic Enterprises (S.E.E.s) should become 'one of the main instruments of the overall development', substantial improvements have not been realized.[10] But neither new laws nor reorganization committees have yet been able to increase the S.E.E.s operating efficiency substantially, and *ad hoc* decisions seem as prevalent as previously. At the heart of the problem lies the conflict between two aims of the government: to make the S.E.E.s independent so that they can effectively compete—where appropriate—with private industry and generate adequate profits to provide for their own investment growth; and to assure that the S.E.E.s remain an instrument of the government's economic policies. This conflict is common in other countries too, e.g. Sudan. Resolving this conflict and finding ways for the S.E.E.s to generate their own financial resources deserves high priority.

There are about 130 S.E.E.s; they produce about one-third of Turkey's industrial output and annually absorb an equal amount of *total* investment. In attempting to procure the maximum return from their investments, the government created the State Investment Bank (S.I.B.) to evaluate and assist in the preparation of their investment projects. More recently, the S.P.O. was given certain veto powers over S.E.E. investment decisions. Obviously this creates a potential source of conflict with the S.I.B.'s investment advisory role, but relations between the S.P.O. and the S.I.B. have been and remain excellent, and perhaps two heads will prove better than one—certainly the problem's importance merits considerable attention.[11]

III

Investment of the public and private sectors is intimately related to the First Plan's objective to increase Turkey's productive potential and must be evaluated within the broader framework of policies and their impact on the achievement of the desired goal. Setting an average growth rate target is a widely accepted practice in development planning. During the first five years of formal economic planning, the G.N.P. growth rate averaged about 6½ per cent, thus nearly attaining the First Plan's overall growth objective. It is, however, necessary to evaluate how much of the result was due to explicit efforts rather than to exogenous factors, and whether the development of the different sectors corresponded to their planned growth.[12] Table 1 compares the actual growth of output (at constant 1961 prices) and imports and exports (at current dollar values) with the corresponding First and Second Plan targets. A notable aspect of the structural pattern of economic growth was that the overall 7 per cent target was nearly achieved in spite of the fact that growth rates of both agriculture and industry were below the planned figures, whereas the construction and service industries expanded more rapidly than anticipated.

The First Plan estimated that agricultural output would grow by more than 4 per cent annually. This was 1 per cent higher than the rate achieved during the period 1948–60 and, more important, substantially above the 1 per cent annual growth realized during the six years immediately preceding the First Plan, after the expansion of cultivated land had virtually ceased. This objective was expected to be achieved by policies designed to increase yields through irrigation, more intensive and extensive use of fertilizers, and new techniques; neither the total cultivated area nor the proportion of different crops was expected to change significantly. Particular importance was placed on increasing the output of animal products in order to satisfy increased demands from the rising population and the improvements in living standards.

The actual growth of agricultural output averaged about 3 per cent annually, which on the surface suggests a substantial improvement over the previous six years, even though below the expectation. This interpretation is deceptive, however, because climatic conditions were on average more favourable than normal, although variations in production due to this factor are difficult to evaluate precisely. Furthermore, agricultural performance should not be judged solely on the aggregate level of physical

TABLE 1

AVERAGE ANNUAL GROWTH RATES (IN PER CENT)

	1948–53	*1953–60*	*1948–60*	*1963*	*1964*	*1965*	*1966*	*1967*	*1963–1967*		*1968–72*
									Actual	*First five-year plan target*	*Second five-year plan target*
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
G.N.P.*	7·6	3·4	5·2	7·7	4·9	4·6	9·9	6·2	6·6	7·0	7·0
Agriculture	6·4	1·1	3·3	7·6	0·0	— 3·3	11·4	0·1	3·0	4·2	4·1
Industry†	7·2	4·9	5·8	8·0	8·6	8·9	10·6	11·7	9·7	12·9‡	12·0
Construction	20·2	3·0	8·4	6·1	8·2	6·0	9·4	8·7	7·7	n.a.	7·2
Transportation	11·4	8·5	9·7	8·4	6·3	7·0	8·4	8·3	7·7	10·5	7·2
Exports, f.o.b.	15·0	—3·0	4·2	— 3·2	11·7	12·9	5·6	6·5	9·0	7·1	7·2
Imports, c.i.f.	14·5	—1·8	4·5	10·6	—21·9	6·5	25·5	— 4·7	1·9	4·7	7·4

* Based on constant 1961 prices.
† Mining, manufacturing, electricity, water and gas.
‡ Manufacturing only.

Source: Columns (1) to (3) and (10)—*First Five-Year Development Plan of Turkey 1963–1967*; Columns (4) to (9)—*Türkiye Milli Gelir*; Column (11)—*Second Five-Year Development Plan of Turkey 1968–72.*

output; the proportions of particular products must also be considered. For example, too much sugar was produced, because the support price was maintained artificially and unnecessarily high; and the same may be true for part of the wheat production. The subsidy to farmers in the Anatolian plain represents an attempt to compensate them because they will not benefit from the expansion of irrigation facilities and have no alternative but to produce wheat or rye under conditions which will remain difficult for the foreseeable future. The long-term solution to their problem requires the creation of more productive alternative employment opportunities, and an eventually reduced labour-to-land ratio. The relatively successful aggregate growth of agricultural output tends to mask the fact that agricultural policies were not fully implemented—indeed the shortfalls in some areas were critical. The investment in dams outdistanced the ability to use their irrigation potential. Furthermore, the farmers did not know how to utilize properly the additional water which was made available. Even more disturbing was the near stagnation in the production of animal products. The expected growth depended to a large extent on the increased availability of feeding stuffs, but only one-tenth of the intended pasture lands were improved. Undoubtedly, the most important single factor explaining why the agricultural sector did not fulfil its expected role during the First Plan was the insufficient increase in the effectiveness of the extension services, which are subdivided among many different governmental organizations and are only weakly linked to agricultural research. Together these factors explain why agricultural output was less than planned in spite of the more than average favourable weather conditions. There was some definite progress in the agricultural sector and the increased use of new wheat varieties will continue to improve productivity, but unless greater efforts are made in this and the other important areas mentioned above, shortfalls in achieving the Second Plan's target might be greater than for the First Plan.

The average annual increase in industrial output was about $9\frac{1}{2}$ per cent, considerably below the First Plan's 13 per cent target.[13] It must be remembered, however, that the plan had hoped to more than double the previous rate of growth (from 6 to 13 per cent); the actual achievement still represents a notable improvement over the 1950s. Even more encouraging is the steady annual rise in the rate of industrial growth from an 8 per cent increase in 1963 to nearly 12 per cent in 1967. There are no statistics available on the relative rates of growth for particular manufacturing sectors, but S.P.O. investment surveys suggest that the desired shift to intermediate products and investment goods did not occur and that new productive capacities were increased more than expected in the traditional industries such as textiles and food processing. This is not to deny that there were substantial investments in some basic materials and investment goods industries. A principal strategy of the First Plan was to encourage import substitution, and as there was already a virtual ban on imports of consumer commodities substitution was mainly concentrated in intermediate goods. (This policy will be discussed in the next section.)

Since agricultural and industrial output grew less fast than planned while the overall growth target was nearly achieved, the combined growth of other sectors must have been higher than foreseen. Unfortunately, relatively few details are available about the other sectors. The First Plan did not set a specific target for construction, but a very low growth rate is implied in the strategy of discouraging residential building (other than low-cost housing) in the hope that private savings would be directed towards more productive investment. It is certain, however, that the desired shifting of private investment away from residential construction did not occur, in spite of certain credit limitations and new taxes. The rate of growth of all construction activity (of which residential construction comprises about three-quarters) rose from a 6 per cent increase in 1963 to 10 per cent in 1967. The rapid rise of the urban population (6 per cent annually as compared with 2 per cent for the rural population)[14] contributes considerably to the demand for housing—a factor which was not fully considered in the First Plan.[15] In addition, there is a high propensity to use private savings for residential investment, since it requires a minimum of entrepreneurship and can be undertaken with amounts which would be insufficient for an industrial enterprise. Most of the investment has been in fairly large and expensive apartments, for which the rate of return has been driven down to a very low level, whereas the great need is for small, low-cost housing. But the individual investor thinks of the physical possession rather than potential economic return. Government measures to overcome these propensities and foster relatively more low-cost housing have been inadequate, although admittedly it is difficult to change private behaviour in this area.

There are several other points worth noting about the First Plan's objectives and policies. Relative price stability, free from controls, was also an important goal. This was necessary to restore both domestic and international confidence in Turkey's ability to remain financially stable, and to assure that its exports would remain competitive. Turkey's exports stagnated during the last half of the 1950s, largely because they were priced out of the international markets by inappropriate price and exchange rate policies which favoured producing for domestic consumers. Price control regulations were largely dismantled during late 1962 and early 1963,[16] although nearly 20 per cent of goods and services are still directly controlled and others are still influenced by the government through the pricing policies of the State Economic Enterprises (S.E.E.s) and their trading activities (for example, wheat and sugar beet purchasing). Consumer prices increased an average of 10 per cent annually between 1950 and 1960, reaching a maximum of over 25 per cent in 1958. During the plan period, 1963–67, the average rise was about 5 per cent, about half of which must be attributed to the price decontrols of 1962–63. As this was comparable with price increases in most other European countries, Turkey achieved relative price stability. But although the price competitiveness of its exports has not deteriorated since 1960, their growth has been slow and they remain a bottleneck to Turkey's development (see below).

IV

Besides the 7 per cent G.N.P. growth rate, the only other explicit goal of the fifteen-year development programme was to 'reach a stage before the end of fifteen years *and probably at the end of the second five years*, when she can continue her development efforts without being in need of exceptional external finance such as foreign aid'.[17] Achieving this objective depends essentially on three factors: (1) how fast foreign earnings can be increased; (2) import requirements; and (3) the availability of sufficient foreign aid during the critical years to enable the country to acquire the amount of production capacity necessary to subsequently finance future investment from domestic savings, i.e. without further foreign assistance.

TABLE 2

BALANCE OF PAYMENTS

	U.S. $ Million (cumulative)		
	1963–67		*1968–72*
	Actual	*First Plan*	*Second Plan*
CURRENT ACCOUNT			
Imports, c.i.f.	−3,191	−3,203	−4,865
Exports, f.o.b.	2,255	2,000	3,115
Trade Balance	−944	−1,203	−1,750
Interest payments	−157	−99	−282
Tourism (net)	−65	18	147
Workers' remittances	287	0	785
Other current items (net)	100	38	2
Total Current Balance	−779	−1,246	−1,098
CAPITAL ACCOUNT			
Debt repayments	−641	−567	−468
Direct private investment	113	125	236
Imports without exchange allocation and short-term suppliers' credits	14	0	80
P.L. 480 (surplus agricultural commodities)	165	290	0
Official capital imports	1,192	1,573	1,400
Reserve changes, errors and omissions, etc.	−114	−175	−150

Source: The First (and Second) Five-Year Development Plan, and Türkiye Is Bankasi, *Review of Economic Conditions.*

Table 2 summarizes the First Plan's balance of payments targets, the actual results, and the Second Plan's objectives. One of the most encouraging aspects of Turkish economic development is that exports exceeded the plan target by 10 per cent.[18] This favourable development—in striking contrast to the discouraging performance during the previous decade—was due to several factors. Good crops and some world price increases (e.g. tobacco and copper) certainly helped. There also has been a growing volume of processed goods, helped by the tax rebate system introduced in late 1963. The expansion of trade under bilateral agreements has also been a positive factor. Together these contributed to helping the value of exports attain $250 million more than anticipated, although the worth of this unforeseen gain was diminished because the terms of trade deteriorated slightly from 1962 to 1967.

There was an even larger improvement in net invisibles, from an expected deficit of $43 million to an actual surplus of $165 million. While tourist earnings were expected to become an important new source of revenue and a high level of receipts from N.A.T.O. infrastructure procurements was programmed, neither materialized. The entire performance was due to the unforeseen inflow of $287 million remitted by

Turkish workers abroad, mainly in Germany. When the plan was being drawn up in 1961 there were no more than 1,500 Turkish workers abroad and no substantial increase was foreseen in the plan. By the end of 1967 there were approximately 200,000. Since July 1964 their remittances have been encouraged by what amounts to a 27 per cent premium, or an exchange rate of TL 11½ per dollar as compared with the official rate of TL 9 per dollar. This has induced an enormous increase in worker remittances, although the figures also reflect efforts to circumvent the overvaluation of the Turkish lira (an issue discussed later in this section).

Since 1953 imports have been regulated by varying degrees of controls through a system of quotas. Actual imports in 1963–67 were virtually identical with the First Plan's target,[19] but this does not mean that the import requirements were perfectly estimated; the composition of imports deviated from the original intention, and if the investment target had been fully achieved more imports would have been required. Also, imports of U.S. surplus commodities (P.L. 480) were hardly more than one-half the planned amount. This implies that imports of raw and basic materials were substantially greater than originally intended, as the level of consumer goods remained—as planned—practically constant.

An important pillar of the First Plan's development policies was to carry out a substantial amount of import substitution ($500 million) in order to permit maximum growth within the expected availabilities of foreign exchange.[20] While no estimates are available of the amount of import substitution achieved, the structure of investments suggests that it fell well below the planned level. More important, however, is the question of whether policies to encourage import substitution are profitable. One study, albeit based on a limited sample, concluded that with a liberalized trade régime and an equilibrium exchange rate, new investment in potential export industries could produce twice as much output, in value terms, as is presently being obtained from similar investment in import substitution schemes.[21] It is even possible that, at the overvalued exchange rate, the foreign exchange cost of producing some commodities for domestic consumption exceeds the cost of importing them. The implications of this misallocation of Turkey's scarce foreign exchange are disturbing. Strictly controlled import rationing and licensing and the nearly complete ban on the importation of consumer goods are the companions of overvaluation which tends to encourage production for the protected domestic market and discourage investment in export industries. At any reasonable estimate of an equilibrium exchange rate, the situation could be reversed and Turkey's serious balance of payments position could be improved instead of worsened, although two or three years might be needed before the benefits were fully realized. The special rate of TL 11·5 per dollar for Turkish workers' remittances and the more recent (1968) exchange rate of TL 12 available to tourists are partial steps to remedy this situation, but neither promotes the required export production. A system of tax rebates on some exports was begun in 1963, but the advantage of approximately 10 per cent is inadequate to compensate for the overvaluation and does nothing to reduce the profitability of investing in industries where import substitution is undesirable.

Actual gross financial assistance was $500 million less than the First Plan's estimated requirement of $1,900 million. Other than the anticipation that U.S. surplus commodity programmes would account for about

$300 million of this, no statements were made about possible sources of the required financial assistance. Concurrently with the First Plan's preparation, however, a Turkish Consortium composed of most of the members of the Organization for Economic Co-operation and Development was in the process of being created. Understandably, the Turkish authorities hoped it would approve of their plan and agree to provide the required aid.

Unlike the I.B.R.D.'s Indian and Pakistan Consortia, which were specifically conceived to co-ordinate the provision of long-term aid, the Turkish Consortium created within the O.E.C.D. in 1962 was the product of a long series of events which can be traced back at least as far as the settlement of the Ottoman debt in 1923. The European members were intimately acquainted with Turkey's previous financial crises—most recently in 1958—when they had been called upon to brace up the economy and consequently they viewed their role essentially as watchdogs over their already substantial loans to Turkey rather than as underwriters of a five-year development plan. The Americans alone were enthusiastic about the break with the past and the prospects for a sound economic future, but understandably the other members were sceptical about Turkey's capacity to manage successfully such an ambitious development programme.

The pledging of financial assistance in 1963 foreshadowed what was to come: the amounts offered were smaller than requested and the terms harder. Some countries extended little more than supplier credits, evidence of their primary concern with their own commercial policies rather than with Turkey's long-term development. By 1964 a pattern was set which continued throughout the First Plan period, during which gross financial aid amounted to less than three-quarters of that requested; and nearly one-half of this was necessary to make repayments on already outstanding debt. If imports of U.S. surplus agricultural commodities are excluded (their amount is partially determined by random weather variations), the First Plan requested $1,006 million in net financial assistance in addition to $567 million needed to repay debts already incurred. In fact, Turkey received only $551 million (net), slightly over half the amount requested.

The substantial shortfall of actual foreign financial aid (either gross or net) raises the larger issue of the role of the Consortium in helping to provide financial assistance for Turkey's development aspirations. The fact that Turkey did manage fairly well to achieve many of the aggregate development objectives with a level of imports essentially the same as originally foreseen should not be interpreted to mean that the Consortium merely adapted its financial aid by providing enough residual exchange to meet Turkey's legitimate requirements. Without the entirely unforeseen increase in workers' remittances, Turkey would no doubt have had to curtail its import programme seriously. It must be noted, however, that included in the $1,006 million of net financial assistance which Turkey hoped to receive during the First Plan was U.S. $175 million for building up Turkey's foreign exchange reserves which have remained at about $50 million since 1958—not even enough to finance one month's imports. This was not, however, a purpose which the Consortium members found acceptable.

Very different amounts of financial assistance were given by the various

Consortium countries. The net financial assistance of the United States alone (excluding interest and principal repayments received, debt roll-over, and the provision of surplus agricultural commodities) amounted to more than $389 million of the total $551 million in net financial aid which Turkey received from *all* Consortium members and multilateral international agencies combined. Germany and the United Kingdom together provided about U.S. $50 million net financial aid while the combined net assistance of the multilateral agencies (I.B.R.D., I.M.F. and E.M.A.) amounted to U.S. $10–20 million. Thus, clearly the majority of the Consortium members did not provide Turkey with any net financial aid—and in fact, principal and interest payments which some countries received *from* Turkey exceeded their new loans *to* Turkey. This has led some persons to question whether the Consortium has fulfilled any useful role in helping Turkey achieve its development objectives.

Conceivably Turkey might have fared as well on a strictly financial basis by dealing bilaterally with its many creditors, but this is unlikely. Given the nearly bankrupt nature of Turkey's international finances at the time of the 1960 revolution, some sort of consortium was inevitable. And it was probably inevitable also that the Consortium would concern itself to a large extent with managing its previous loans to Turkey. Undoubtedly its most beneficial role has been to force the planners to think more in terms of specific projects than they had at the beginning of the plan. Surely the most evident shortcoming of the original plan was that it concentrated mainly on aggregate objectives (e.g. overall growth, public savings, foreign aid) rather than on the specific projects needed to create increased employment and productivity. While the Consortium has not fulfilled the financial expectations of the Turkish planners, it has undoubtedly been an important factor in the translation of a broad development programme into concrete ideas and channels.

V

Aside from attempting to achieve a 7 per cent rate of G.N.P. growth, another primary objective of Turkey's First Plan was to eliminate the need for concessional-type loans by about 1972. The Second Plan (1968–72) now expects that this will be achieved by 1975. Considering the likely future developments of imports and exports—even if the overvaluation is corrected and a tourist boom does materialize—this is unlikely.

The external debt amounted to about U.S. $1 billion at the beginning of the First Plan, grew to over U.S. $1·5 billion by the end of 1967, and may reach somewhere close to U.S. $2·5 billion by 1975—by far the world's highest on a *per capita* basis.[22] Servicing the present debt already imposes a tremendous problem, the dimensions of which seem as likely to grow as to decline during the coming years. The rather optimistic view of the O.E.C.D. Consortium is that Turkey's balance of payments gap will amount to about U.S. $200 million per year by 1975, including debt servicing of approximately the same magnitude. In other words by 1975 Turkey may no longer require any *net* financial aid but will still need about U.S. $200 million of *gross* assistance to repay outstanding debts. It is not feasible to think of financing this requirement from new suppliers' credits or other commercial loans, which within a very short while would only aggravate the debt servicing problem. But by reducing its net financial assistance to zero and by only requiring enough gross aid to roll over its outstanding debt, Turkey would be able to enter a more advanced stage of its economic development by the beginning of the last quarter of this century—a far cry from its former reputation as the 'sick man of Europe'.

In spite of the shortfall in foreign financial assistance and the shortcomings of its own policies, Turkey's economic progress during the First Plan period was substantial by any measure, and especially impressive when compared with the distortion and misallocation of resources which characterized the 1950s. In 1963 *net* foreign aid provided roughly 30 per cent of Turkey's total investment funds; this was equivalent to more than 4 per cent of G.N.P.; by 1967 these figures were down to 8 and $1\frac{1}{2}$ per cent respectively and—even allowing for some shortfalls of both growth and foreign aid—the comparable figures in 1972 should not be more than 5 and 1 per cent respectively.[23] Neither the continued willingness of nations to contribute to Turkey's development nor the process of development itself can be predicted with certainty. But the experience of the First Plan suggests that during the Second Plan period, which began in 1968, Turkey can expect to make substantial progress.

1. Walter F. Weiker, *The Turkish Revolution 1960–61* (Washington, D.C.: The Brookings Institution, 1963), pp. 21–22.
2. *The Turkish Constitution*, Article 129.
3. J. K. Eastham, 'The Turkish Development Plan: The First Five Year', *Economic Journal, 84* (March 1964), pp. 132–36.
4. Between 1950 and 1955 cultivated fields (including temporarily fallow land) increased nearly 50 per cent—virtually all of which came from reducing the number of hectars in meadows and pastures (State Institute of Statistics, *The Summary of Agricultural Statistics, 1942–1963*). The fact that the *average* productivity on cereal-producing land remained roughly constant may imply that some increasing crop yields did occur on the previously cultivated land while the marginal land pulled down average productivity which otherwise would have risen. The detailed statistics required to test this hypothesis are not available and the analysis is further complicated by wide year-to-year fluctuations in output due to changing weather conditions.
5. Weiker, op. cit., p. 149.
6. State Planning Organization, *First Five Year Development Plan 1963–1967* (Ankara: 1963), pp. 33–35.
7. Ibid., p. 16 and pp. 120–21.
8. Eva Hirsch, 'A Method of Estimating the Distribution of Farm Incomes in Turkey', *Journal of Development Studies 2* (January 1966), p. 146.
9. Some new taxes on agricultural income were eventually approved, but they include large exemptions, and collections during the First Plan were not substantial. It should be pointed out that the proposed scheme to tax the potential earning capacity of land was probably incapable of being effectively administered; the proposal, however, was defeated not on these practical grounds, but because of its political and economic implications.
10. *First Plan*, p. 78.
11. The government's concern about the efficiency of the State Economic Enterprises is evident by its passing of legislation to reform them (Laws 440 and 441 of 1964) and the creation of a reorganization committee to study and report separately for each enterprise. Nevertheless, progress has been slow and they remain a major bottleneck to Turkish development aspirations.
12. As with all statistics, one cannot accept unquestionably the published estimates of growth rates. There have been differences of opinion within the Turkish administration about them, but nothing as serious as the dispute about the absolute level of economic activity. The State Institute of Statistics (S.I.S.) is responsible for publishing the National Accounts, but the S.P.O. uses its own estimates. The principal, but not the

only, difference arises from an estimate of the net value added by agriculture, which the S.I.S. reports about 10 per cent higher than the S.P.O.'s figure. The S.P.O. generally adopts the rates of growth estimated by the S.I.S., a dubious compromise under the circumstances, and acknowledges that the growth rates do contain some non-significant measurement errors.

13. The actual shortfall may be a little less than the apparent difference, because the First Plan's target applied only to manufacturing output, which accounts for roughly 85 per cent of total industrial output. Even if, however, the remaining industries (mining, electricity, gas and water) grew much slower the average annual rate of growth of manufacturing alone probably did not exceed 10 per cent.

14. *Census of Population*, State Institute of Statistics.

15. It has been observed that there is a demographic check upon the universally observed rising urban-rural population ratio which accompanies industrialization because the migrants are mostly males, and the increasing male/female ratio in the urban centres results in a lower birth rate there. However, the importance of migration alone is enough to create a high rate of population growth. See, Michael Lipton, 'Population, land and decreasing returns to agricultural labor', *Bulletin* of the Oxford Institute of Economics and Statistics, Vol. 26 (May 1964), pp. 123–57.

16. Like many countries, rent controls were retained in the postwar period. But by abolishing them in 1963, Turkey became the only O.E.C.D. country entirely free from rent controls.

17. *First Plan*, p. 38.

18. While the actual dollar value of exports exceeded the First Plan target, the average annual rate of growth was below the desired rate (see Table 1) because exports in the base year (1962) were considerably larger than the estimate used in preparing the plan.

19. Table 2 shows actual imports as having slightly exceeded their planned level, whereas Table 1 shows the actual rate of growth of imports to have been less than the planned rate. The difference arises from the fact that actual imports in 1962 were higher than the assumed amount on which the plan was based.

20. *First Plan*, p. 492.

21. Anne O. Krueger, 'Some Economic Costs of Exchange Control: The Turkish Case', *Journal of Political Economy*, *74* (October 1966), p. 480.

22. For example, in 1962 this amounted to about \$50 per person as compared with an average external debt of about \$10 per person in both India and Pakistan.

23. Besim Ustunel, 'Problems of Development Financing: the Turkish Case', *Journal of Development Studies 3* (January 1967), pp. 130–54.

Book Reviews

A note on the current research interests of members of staff in the Department of Economic and Political Studies, *School of Oriental and African Studies London.*

The Department of Economic and Political Studies, School of Oriental and African Studies, has a staff of eight economists and seven political scientists, with the following research interests:

1. ECONOMICS

Professor E. Penrose and Dr P. K. O'Brien are engaged in research on the Middle East. Professor Penrose has a special interest in the economics of the oil industry and is working on a study of Planning and the Growth of the Firm. Dr O'Brien is preparing a book on the economic history of Egypt. Dr W. M. Warren works on West African labour and wages, and the Department has two economists working on India: Dr B. K. DasGupta is making a statistical study of electoral behaviour in India (in conjunction with Professor W. H. Morris-Jones of the Institute of Commonwealth Studies); Mr T. J. Byres is doing research on the economics of mobilizing an agricultural 'surplus' in India. Mr P. Ayre, who is interested in the trade and monetary problems of South-East Asia, is currently working on balance of payments adjustment in the Philippines. Two economists have research projects on Modern China. Mr C. B. Howe is working on urban employment and Dr K. R. Walker on China's rural economic development. In addition, the Department has organized an interdisciplinary project on land utilization in Libya, under the direction of Dr K. S. McLachlan. The results of extensive field work are now being analysed.

2. POLITICS

Professor Stuart Schram and Mr Geoffrey Shillinglaw are engaged in research on contemporary China. Professor Schram, Head of the Contemporary China Institute, has a special interest in the political ideology of China; Mr Shillinglaw, Research Fellow in the Contemporary China Institute, is writing a Ph.D. thesis on the subject of the politics of land reform in South Central China. Professor P. J. Vatikiotis and Dr A. R. Kelidar are concerned with the politics of the Middle East. Professor Vatikiotis has concentrated on Egypt and Jordan, particularly on the military and politics of these countries; Dr Kelidar is involved in a study of the emergence in Iraq of a political *élite* in 1920–32. Dr Ruth McVey deals with the politics and history of South-East Asia, especially Communism and problems of development in Indonesia. Dr Sriram Mehrotra has focused on the history and politics of South Asia, and is currently completing the first volume of his history of the Congress Party in India. Dr D. Cruise O'Brien is concerned with the politics of West Africa. His Ph.D. thesis dealt with the Mourids of Senegal, and his current research is on Senegalese clan politics, especially socio-economic analysis of the involvement of religious leaders in politics.

Economic Theory: an Integrated Text with Special Reference to Tropical Africa and Other Developing Areas. By P. W. Bell and M. P. Todaro. *O.U.P.* 1969.

This book was designed as a comprehensive textbook of economic theory for second-year students at African universities. It covers broadly the same areas of

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CRED Reprints

No. 1. "Nigerian Government Spending on Agricultural Development: 1962/3–1966/7" by Jerome C. Wells. (*The Nigerian Journal of Economic and Social Studies,* November 1967)

No. 2. "Major Issues of Wage Policy in Africa" by Elliot J. Berg. (Arthur M. Ross, Editor, *Industrial Relations in Economic Development,* Macmillan, 1965)

No. 3. "The Myth of the Amorphous Peasantry: A Northern Nigerian Case Study" by Polly Hill (Mrs. M. E. Humphreys). (*The Nigerian Journal of Economic and Social Studies*, July 1968)

No. 4. "Urban Real Wages and the Nigerian Trade Union Movement, 1939–60: A Comment" by Elliot J. Berg. (*Economic Development and Cultural Change,* July 1969)

No. 5. "Turkish Economic Development: The First Five Year Plan, 1963–67" by Wayne W. Snyder. (*The Journal of Development Studies,* October 1969)