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CENTER DISCUSSION PAPER NO. 112

DEVELOPMENT OF THE TURKISH ECONOMY: AN EXPERIENCE IN PLANNING

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Development of the Turkish Economy: An Experience in Planning

I. BACKGROUND OF DEVELOPMENT

The purpose of this paper is twofold: to evaluate the performance of the Turkish economy during the years of plan implementation, (i.e. from the end of 1962 to 1971), and to assess the effectiveness of planning in Turkey in terms of the achievement of its objectives and its contribution to economic development. In evaluating the nature and direction of development, socio-economic and political factors will also be considered.

Various features of the Turkish economy will be apparent as the paper unfolds. But some basic statistics on the Turkish economy are warranted here. Turkey had a population of 35.6 million in 1970, growing at an annual rate of 2.6 percent. Literacy is around 50 percent among the population six years old and over. Some 35 percent of the people live in urban centers with a population of 10,000 or more. Nearly 70 percent of the labor force is engaged in agricultural activities. The gross national product of the country grew annually at the rate of approximately 5 percent during the last two decades, reaching the level of ^{8.7}~~8.1~~ billion dollars in 1970, at the official rate of exchange. This corresponded to a per capita gross national product of 230 dollars. On the other hand, in 1970 some 30 percent of the net domestic income originated from agriculture while the shares of industry and services were 20 and 50 percent respectively.

Total foreign trade of Turkey was on the order of 17 percent of her gross national product in 1970. The current account of Turkey's balance of payments showed a deficit throughout the last two decades, roughly at the level of 2 percent of Turkey's gross national product, indicating that there has been a continuous resource transfer from abroad. More than 80 percent of Turkey's exports have been of agricultural origin, while only three crops (tobacco, cotton, and hazelnuts) constitute more than 50 percent of the total exports in value.

These statistics reveal the level of development of the Turkish economy, and put her in the category of the so-called "underdeveloped countries". However, despite some similarities, Turkey's development experience differs from that of the majority of the countries in this group. Unlike the experience of newly emerging countries, Turkey was never fully subjected to colonial rule, even though in the later years of the Ottoman Empire Western powers exercised substantial influence and control over the country's economy and resources. One example of this domination was a series of concessions granted to foreigners and foreign operations, mainly in terms of extra-territorial rights, better known as "capitulations".

Another example was the operation of an agency made up of foreign creditors, called Ottoman Debt Administration, which had direct access to various taxes and custom revenues. Turkey was forced to accept the establishment of such an agency when the government could not repay the heavy debts incurred by the Ottoman rulers to cover the budgetary deficits that resulted mainly from costly military operation.

A second reason why the Turkish experience is unique is that compared with most other contemporary underdeveloped countries, Turkey as a nation made some noteworthy attempts to change the structure of the society and to achieve self-sustained economic development, as early as the 1920's. Once a major political power, the Ottoman Empire later on fell behind the European countries in technology, as well as in economic and social progress. Some attempts were made in the last century to reform and modernize the old Empire. However it was only after the establishment of the modern Turkish Republic in 1923, which literally rose from the ashes of the Ottoman Empire, that the most serious experiment of deliberately changing the socio-economic structure of the country was initiated, under the leadership of Kemal Ataturk. Once national boundaries and the identity of the new Republic were established, a number of social, cultural, and political reforms followed rapidly with a view to modernize the country and eventually "catch up" with the Western countries' standard of living.

Needless to say an elaboration here of the various measures designed to change Turkish society, under Ataturk's leadership, is beyond the scope of this paper, but the mention of a few of these reforms is illustrative.

To secularize the society, and break away from the traditional values the sultanate and caliphate were abolished, religious schools were closed, the Islamic legal system was replaced by legal codes borrowed from European countries, the Latin alphabet was adopted replacing the Arabic script. An international calendar, clock, and metric system were introduced. The reforms even extended to wearing apparel; the traditional fez was replaced by

the hat and European clothes. Women, once considered secondary citizens, were given the right to vote and equal opportunity in education and professions.

The new Republic inherited an economy that was financially exhausted as a result of lengthy wars and mismanagement of resources. There was not an industrial base to speak of, and the main services and commercial activities were in the hands of either foreign companies ^{or} ~~of~~ minorities. One major concern of Ataturk was to remove the foreign control that infringed upon the full sovereignty of the country and to create an industrialized, self-sustained economy. To this end capitulations were terminated, the Ottoman debt Administration was abolished, and the foreign operations were gradually liquidated. However, the revolutionaries did not have a definite strategy or model for developing the economy. As a result the earlier years of the Republic was a period of trial and search for a suitable policy. First the role of private enterprise was stressed and the State assumed a secondary role. But gradually it became more and more obvious that the private sector was too small and ineffective to industrialize the country. In the early 1930's a major change was made in the official economic policy and emphasis was shifted to the State.

This new policy was called "etatism" and sometimes as "state capitalism". Even though the concept evolved throughout the time, the basic approach was pragmatic and not ideological. In order to achieve rapid industrialization of the country the public sector entered the production process and national plans were prepared to carry out investments.

The first five year industrialization plan was implemented in 1934-38. Investments were made in factories, basically in consumer goods industries, in mining, and in power projects. Emphasis was shifted to heavy industries in the Second Five Year Plan which never got off the ground, however, on account of the outbreak of the Second World War. Various plants established in this period may not be able to withstand modern tests of efficiency, but one should not overlook the fact that these projects were designed not only from an economic point of view but also with the purpose of demonstrating modern technology in different parts of the country. The existing railroads were bought back from the foreign companies and new lines were added, linking remote parts of the country with major cities. Meanwhile the industrial output rose sharply once the new plants started operating, the industrial value added showing a two-fold increase from 1933 to 1938.

Even though Turkey was not actively involved in the Second World War, maintenance of a very large army put a heavy strain on the already weak economy and production dropped visibly during the war years. Immediately after the war a number of events took place that were to have long lasting effects on Turkey's economic and social life. One of these was Turkey's decision to establish closer links with the Western World and in particular with the U.S. in political and military spheres. This coincided with the interest of the Western Bloc countries for they attached great importance to Turkey's strategic geographic location. As a result, Turkey was one of the earliest recipients of post-war foreign assistance. The second event that has had significant influence in shaping the social and economic changes in the following years was the decision made by Inonu, Ataturk's successor

upon the latter's death in 1938, to permit a multi-party system. Until then a single-party system had prevailed in Turkey; members of Parliament were also the members of the Republican People's Party established by Ataturk himself and relied heavily on the enthusiastic support of the bureaucracy-intelligentsia as well as the rural elite.

The newly formed Democratic Party came to power in 1950 with an overwhelming majority, enjoying the support of a grand coalition of liberal minded intellectuals who were tired of a one party regime, the big businessmen who disliked the statist policy of the government, the peasants, who for the first time could identify themselves with political power, and the conservatives who reacted to the sweeping social and cultural changes as well as to the diminished role of religion in daily life. The professed economic policy of the government was liberal in its outlook with a shift of emphasis to the private sector. Also foreign private investments were encouraged.

Rapid increases in output were recorded during the first half of the ten years of Democratic Party rule. A host of external factors contributed to this development. Production increases in agriculture were due to rapid expansion of cereal producing land on one hand and to unusually favorable weather conditions on the other. Accumulated foreign exchange reserves from the war years, as well as continuous foreign assistance made it possible to increase imports. Turkey received no less than \$1 billion in economic assistance from the U.S. during these ten years, a large portion of which was in the form of grants. Turkey's exports profited from the high conjuncture which had resulted from the Korean War. Exports reached the level

370

of ~~\$120~~ million in 1953, a level which was not to be attained for the following ten years. On the other hand, the government initiated large investment projects in highway construction, power plants, dams, and port facilities. Rapidly increased internal demand stimulated the private sector activities in manufacturing, trade, transportation and other services.

National income statistics also reveal the extent of this boom. The gross national product grew at an annual rate of 11.3 percent on the average from 1950 through the end of 1953, in real terms. Rate of increase of agricultural production index was nearly 20 percent annually during the same years, while the industrial output grew by approximately 12 percent annually during the 1950-55 period.

The economic boom that marked the first years of the Democratic Party rule lost its momentum by the mid-1950's, and the economic situation deteriorated rapidly through the end of the period. The external factors that contributed to earlier expansion ceased to exist. But the government ignored the severity of the problem and went ahead with her ambitious but uncoordinated policy and projects. Afraid of offending the popular base the Democrats relied on, high agricultural support prices were maintained. Despite earlier intentions of reducing the relative importance of the State in the economy, government regulations were intensified and the State Economic Enterprises were expanded. New plant locations were frequently determined by non-economic criteria. The prices of the goods and services provided by the State Economic Enterprises were held down and the resulting deficits were covered by the Central Bank transfers.

Once imports were cut down, scarcities and bottlenecks appeared in production. The pace of the growth of gross national product went down to approximately 4 percent. Monetary expansion on one hand and the supply scarcities on the other caused the prices to soar at around 20 percent annually. Despite the inflow of foreign aid, the insufficiency of foreign exchange forced the government to resort to short-term borrowing and suppliers' credits.

By 1958 Turkey was in deep trouble economically. The servicing of foreign debt was not possible without interrupting the functioning of the economy entirely. Turkey's creditors came to the rescue of the government in August 1958, rescheduled her existing debt, extended new credits and forced the government to accept a stabilization package which included the de facto devaluation of the Turkish lira which was overvalued by at least 300 percent, and to put ceilings on the Central Bank credits. The government followed the stabilization policy half-heartedly until the May 1960 military takeover.

The Democratic Party ran into serious difficulties on political grounds also during the later part of the 1950's. Once ardent supporters of the party, the intelligentsia gradually glided into opposition. As this group became disillusioned and highly critical of the government policies, Democratic leaders pushed measures to suppress the voice of the dissenters. The Democrats under-estimated the role and the influence of this vocal minority, and they thought that they could do without their support since the Party still enjoyed the support of the peasants and small town dwellers.

As the economic difficulties mounted, metropolitan centers, especially where large universities are located, became very explosive. The government preferred to use more oppressive measures to deal with the situation.

On the other hand, the reformist movement started by Ataturk in the 1920's, had lost its momentum by the 1940's. But under the Democratic regime, reforms came to a halt and in some cases were altogether withdrawn, with a view to pamper and please the conservative groups. All these developments led to a new coalition in Turkey between the intelligentsia and the military. Few were surprised when the army took over the government in May 27, 1960, a month after bloody student uprisings.

The new rulers of Turkey formed a Cabinet with civilians in majority, and asked a group of professors to draw up a new constitution. They were aware of the damage done to the economy by the unplanned and uncoordinated policies of the previous government. They were also anxious to speed up the rate of economic development and to carry out the necessary reforms to change the social and economic structure. So one of the early measures taken was to initiate development planning and to establish a State Planning Organization (SPO) in September 1960. The revolutionaries also saw to it that planning should continue after their transfer of power back to the civilians, which they did in October 1961, and they included an article in the new constitution to this effect.

The planned development efforts of the 1960's should be evaluated against the background outlined briefly above. However, before turning to actual developments, the nature and main characteristics of Turkish Planning should be introduced.

II. THE MECHANISM AND MAIN CHARACTERISTICS OF TURKISH PLANNING

The decades of the 1950's and the 1960's marked worldwide enthusiasm for economic planning as a tool to promote economic growth in the underdeveloped countries. Development plans were formulated, and implemented with varying vigor and effectiveness. Needless to say the political system, the economic and social structure, the institutional set-up and a host of other factors influenced planning in these countries. Meanwhile, the approaches to development planning have gradually changed as the countries gained experience, and both plan formation and implementation improved visibly in most countries.

As already mentioned, Turkey's experience with planning is unique among the underdeveloped countries, for it goes back to the Thirties. The two plans prepared in 1933 and 1938 differed from the present development plans not so much in their overall strategy and approach, but rather in their coverage. They were called Five-Year Industrialization Plans, indicating their non-comprehensive nature. They were designed to give a stimulus to the process of industrialization through the establishment of infrastructure and manufacturing plants. Agriculture, construction, transportation, and other services were left outside of the framework of planning.

The targets of the first plan were basically accomplished but the implementation of the second plan was interrupted by the Second World War. A third plan was attempted soon after the War, in 1947, but the government did not implement it. The official need and attitude of that time was away from planning economic activities. The approach and the sophistication of these

plans are not comparable to present planning in underdeveloped countries. Nevertheless they represent one of the earliest attempts of planning for accelerated development and thus have pioneering value.

Present planning in Turkey has its origin in the 1961 Constitution, where planning for social and economic development was defined as the duty of the State. The State Planning Organization (SPO) is the government agency responsible for drawing up the five-year plans and the annual programs. The SPO is also given the responsibility to follow up the plan implementation and to advise the government on current economic policy issues.

The SPO is made up of two bodies; the Central Planning Organization and the High Planning Council. The Central Planning Organization consists of three departments, namely Economic Planning, Social Planning, and Coordination and is headed by an undersecretary responsible directly to the Prime Minister. A fourth department of Investment and Export Promotion and Implementation was established in 1967.

The High Planning Council has eight members; the Prime Minister (or deputy Prime Minister) and three members of his Cabinet, the undersecretary and three original departments' heads of the Central Planning Organization. The Council serves as a liaison between the Central Planning Organization and the Cabinet, and provides a forum where technicians can explain their propositions and exchange views on developmental issues with the politicians. The drafts prepared by the Central Organization become operational documents after their adoption by the High Planning Council and the Cabinet. In the case of the five-year plans the approval of the Parliament is also required.

The above information on the structure of the SPO reveals its purely advisory nature. A question frequently debated in planning literature is what the status of the planning agencies should be within the administration of a country. Within the Turkish Administrative system, the responsibilities assigned to the SPO by law can be effectively served under the above described set-up as long as the government want to employ planning as a tool of accelerating economic development. Unnecessary conflicts that might arise among the various ministries on policy problems of execution can usually be avoided. Yet the SPO can be sufficiently effective as an advisory agency on account of its access to the Prime Minister and the Cabinet.

Since the establishment of the SPO, two five-year plans have been prepared in Turkey. The First Five Year Plan (FFYP) covered the 1963-67 period. The implementation on the Second Five-Year Plan (SFYP) began in 1968. Both of these plans are comprehensive in nature and they cover the economic activities in all sectors as well as the social aspects of economic development. The plans are indicative with regard to the activities of the private sector while the investment targets and measures dealing with the public sector are imperative.

The five-year plans describe the objectives, identify bottlenecks, and explain the overall policies. They contain quantitative targets for investment, balance of payments, physical production, public finance, as well as targets in employment, manpower, health and education. Investment and production estimates for economic sectors and the subsectors of the manu-

facturing industry are given in detail, without making a distinction between the public and private sectors. The projects to be implemented during the plan are not identified in the five year plans; they are dealt with in the annual programs.

Annual planning is invaluable in making the planning exercise more operational. It provides the much needed flexibility in plan implementation, since plans may often become outdated or unrealistic within a few years, mostly on account of exogenous factors such as successive poor harvests. It is also a formal link ^{be} between the medium term plans that usually cover a period of five years and the government annual budgets.

Annual programs have also become an integral part of the Turkish planning. According to the FFYP, annual programs were to "give scope for modifying initial working assumptions, revising incorrect estimates and making such other changes in the plan as may be necessary in the face of new conditions" and they were to be "prepared every year in a new perspective and attention will be concentrated mainly on the revenue estimates and the expenditure targets for the year covered."¹ Accordingly, program documents have included not only the investment targets and specific policy measures for the year in question, but also a general evaluation of the past performance of the economy as well as the developments in individual sectors. Also, mid-term reviews of implementation were made in the 1966 and the 1970 Annual Programs.

As mentioned above, annual programming in Turkey has also provided the framework for the selection of public sector projects, since they are not

1. First Five Year Development Plan, State Planning Organization, Ankara, 1963, p. 401.

explicit in the Plans. During the annual program preparations, the new project proposals submitted by the budgetary departments and the State Economic Enterprises are evaluated, and the continuing projects are reviewed by the SPO. Meanwhile the size of the public sector investments in individual sectors is very much affected by the private investment. If private investors seem reluctant to invest in priority areas, the public sector is expected to step in. As a result the relative shares of public and private investments in different sectors in annual programs may be and often are different from the distribution in five-year plans.

Implementation of the annual programs is followed up by the Central Planning Organization and reported to the High Planning Council. Implementing agencies are expected to report to the SPO once every three months. The SPO also keeps a closer watch on a number of selected high-priority projects.

Turkey's two five-year plans seem to be quite similar in their objectives and overall approach. They both encourage economic activities in a mixed economy where both private and public sectors work together to achieve accelerated growth. Nevertheless, despite the similarities in their general outlook, the two plans differ in their implementation policies. The preparation for FFYP began when the military was in power in 1961. But it was finalized and partly implemented by the coalition governments led by the Republican People's Party which is traditionally for government intervention and leadership in economic development. In 1965 the Justice Party which campaigned on basically the same economic policy platform with the Democratic Party of 1950's came to power. Nevertheless

the Justice Party governments implemented the remaining years of the Plan without basically changing it. But when the SFYP was eventually formulated the changes towards the implementation policies were obvious. In the new strategy for development a leading role was assigned to the private sector especially in the manufacturing industry.

The FFYP recognized that the public and private sectors are "the two component parts of a whole" and not "two separate sectors with conflicting interests." But strong government direction was required because "the change from an underdeveloped and stagnant economy to a progressive and dynamic one may be achieved through systematic and rational measures taken by the central authority." Moreover, it was expected that "the State should be vanguard of progress in the industrial sector by setting up enterprises requiring a high level of technical knowledge and capital in new fields of production."² Meanwhile, a considerable contribution was expected of the private sector to the achievement of the goals of the Plan and more specifically in the field of investment. Private sector investments were projected to increase at 11 percent per annum as against 10.6 percent annual income in public investments, over the five-year plan period.

Various measures were ~~encouraged~~ ^{envisaged} in the FFYP and the programs to encourage the private sector investments and to affect their sectoral and regional distribution. Some of the more important measures were tax relief for approved investment, postponement of certain duties on the imported investment goods, and selective credit control. The industries that would benefit from these measures were specified in the Annual Programs.

2. Second Five Year Development Plan. State Planning Organization, Ankara 1968, p. 112.

A shift of emphasis to the private sector was made with the SFYP. Policies were designed to enable the private sector "in the Second Plan period to take over the development of the manufacturing industry in the long run." The public sector was expected to "complete the investments already initiated and to improve the efficiency of the existing production capacity" and to "enter those fields of industry which the private sector cannot participate in despite the incentives."³ Fixed investments of the private sector was expected to increase by 12.5 percent annually.

In line with this new policy, a law was passed in 1967 that enabled the government to diversify the measures to encourage private investments, both domestic and foreign, to transfer government funds to the private sector, and to empower the State Planning Organization to execute these measures directly. However, articles of this law concerning the outright transfer of public funds were found to be unconstitutional and were removed in 1970.

Meanwhile the State Planning Organization went through some organizational changes. A new department of "Investment and Export Promotion and Implementation" was established and it became the largest and most prominent department within the SPO. The new department was given the task of not just coordinating but also implementing the measures designated in the annual programs to encourage private investments and exports. The encouragement measures used in the FFYP period were expanded and this time included outright transfers to selected private enterprises. The SPO also

3. Ibid, pp. 55, 56



assumed the responsibility of evaluating the foreign investment applications. During the SFYP period, the interest of the SPO significantly shifted from the actual planning and economic policy formulations to administration and execution of government policies and measures.

Another aspect of Turkish planning is worth mentioning here. The success of the plan implementation depends heavily on the cooperation and willingness of the institutions that take part in the implementation. On the other hand the planning agencies regardless of how competently staffed cannot have access to the information and expertise in diversified areas. The functioning of a number of "ad hoc specialized committees," similar to French planning experience was SPO's solution to these problems. In the preparation of both First and Second Plans, a large number of committees were formed, staffed by representatives of both public and private sectors. Their work was extensively used in plan formulations, particularly in the preparation of sector programs.

It has already been pointed out that the general objectives of Turkey's First and Second Five Year Plans were similar. They both aim at achieving an annual 7 percent gross national product increase on the average, a decline in the dependency on foreign assistance, and eventual elimination of dependency by mid-70's, reduction of the existing disparities in personal and regional income distribution, and, a lowering of the level of unemployment, while maintaining relatively stable prices.

These general objectives of planning in Turkey are also quite similar to the objectives cited in other countries development plans. Thus it is a point of interest to measure and evaluate Turkey's success in achieving these aims.

III. DEVELOPMENT OF THE TURKISH ECONOMY

A. Growth and Structural Change

The first obvious indicator of the rate of economic growth is the rate of increase of the gross national product. Caution must be exercised, though, in evaluating the growth performance of an economy based on the GNP estimates alone. Growth recorded in a relatively short period of time may be seriously affected by external factors such as weather conditions. On the other hand in Turkey as in most underdeveloped countries, there is considerable room for improvement in the methods and data used in the estimation of these figures.

An annual 7 percent rate of growth of GNP was chosen as the primary target of both the FFYP and the SFYP of Turkey, and the reason behind such a choice was basically non-economic. It was argued officially that for West European countries a 3.3 percent annual rate of economic growth had been chosen, and, given nearly a 3 percent population growth in Turkey, the per capita growth target had to be no less than 4 percent, if Turkey entertained any hope of "catching up" with these countries. In the SFYP, the same rate of growth target was retained, because anything less than this would have been politically unacceptable and anything higher than this would have required more strenuous efforts. The macro-economic calculations in the annual programs were also based on 7 percent GNP increase for the forthcoming years, regardless of the actual rates achieved in the previous years.

Table 1

The Growth Rate of GNP and its Components
as Percentages in Real Terms

	1952-62 Actual	1957-62 Actual	1962-67 Planned	1962-67 Actual	1967-72 Planned	1967-70 Actual
Agriculture	1.6	1.9	4.2	3.2	4.1	nil
Industry	5.7	3.6	12.3	9.7	12.0	8.4
Construction	4.1	-0.2	10.7	8.0	7.2	9.1
Transportation	6.9	4.4	10.5	7.2	7.2	7.9
Housing	9.6	7.5	n.a.	8.1	5.9	9.2
Others	5.6	3.1	6.2	8.0	6.0	8.2
Net Domestic Income	3.8	3.3	6.9	6.4	6.8	5.6
GNP	3.9	3.4	7.0	6.7	7.0	5.9

Source: State Planning Organization

In Table 1, the planned and actual growth rates of GNP and its components in real terms are shown, along with actual performance of the Turkish economy during the ten and five years prior to plan implementation.

The information in Table 1 reveals that there has been an appreciable increase in the average rate of growth of GNP during the plan period compared with the previous performance of the economy. During the 1952-62 period the GNP grew by approximately 4 percent annually, while the rate of growth slowed down to 3.4 percent on the average, during the second five years of this period. During the FFYP years the annual GNP growth rate jumped to 6.7 percent. The rate of increase, however, seems to have slowed down to a little less than 6 percent during the last three years.

On the other hand a closer examination of the sectoral breakdown of the GNP reveals that the growth in key sectors were less satisfactory than the overall growth rate indicates. The increase in the agricultural value added was 25 percent behind the target, at the end of five years of plan implementation. Moreover, during the first three years of the SFYP there has been no growth in this sector. In an economy like Turkey, where agriculture constitutes over 30 percent of the total value added and 70 percent of the employment, this causes concern. An average 4 percent annual increase in agricultural output seems to be essential in view of the present population growth of 2.6 percent, as well as the supply requirements of the manufacturing industry and exports. Stagnation of agricultural production over an extended period of time would have far reaching adverse effects on Turkey's economic development.

In order to increase the yield in agricultural production, the SFYP strategy is to reduce the dependence of Turkish agriculture on weather conditions through the introduction of modern technology. Accordingly it was emphasized in official documents that the use of modern tools and inputs would be encouraged, by maintaining an adequate supply ^{At} of relatively low prices. Investment in the development of soil and water resources was also expected to contribute to the growth of agricultural output.

There is considerable room for expansion of fertilizer use in Turkish agriculture. In 1961-62 the figure for Turkey was 3.0 kg (chemical content) per hectare, compares very unfavorably with 35.2 kg. for Spain and 42.9 kg. for Greece, not to mention such high fertilizer users as Taiwan. Relatively modest FFYP targets were realized when the consumption went up to 1.5 million tons in 1967 from a level of approximately 300,000 tons in 1962. During the first two years of SFYP implementation the targets were fulfilled by a little over 70 percent. Nevertheless the fertilizer consumption went up to 2.3 million tons.

In 1962 only 1.1 million hectares of 6.7 percent of the total cultivated land was under irrigation. The FFYP target was to add another 0.5 million hectares to this and the implementation fell short of this target by approximately 25 percent. Experts maintain that the irrigated land can be increased only up to 5 million hectares, given the water resources and the rugged terrain of the country. In efforts towards the mechanization of agriculture, the number of tractors increased since 1963, over and above the plan forecasts while the other increase in total farm equipment fell significantly short of the plan figures.

The information concerning the plan implementation reveals that even though the plan targets have not been fully realized, efforts were made in years to increase the yield in the agricultural sector. Unfavorable weather may be blamed only partially for the failure in increasing the output. Some changes in the institutions seem to be warranted. A land reform which not only distributes but also consolidates the fragmented holdings should contribute to the yields. Measures to improve marketing conditions and the distribution of agricultural credits may also pay off in terms of increased efficiency. These measures should not of course be considered as alternatives to the efforts of improving technology but as complementary to them.

The industrial value added rose sharply in Turkey during the plan years compared with the low performance of the previous decade. Nevertheless the value added increase fell short of the FFYP targets by approximately 25 percent. During SFYP the rate of growth in the industrial sector slowed down to 8.4 percent compared with the 9.7 percent growth rate of the previous five years.

In Turkey's national accounts the "industry" sector consists of mining, manufacturing and energy. Manufacturing value added is roughly 90 percent of the total. In the SFYP of Turkey, "highest priority" is given to the development of the manufacturing industry and it is defined as the "leading sector" of the economy. Approximately 40 percent of the increase in GNP was expected to come from manufacturing. In the SFYP, the share of the investments in the manufacturing industries was increased to 22.4

percent of the total from less than 20 percent in the FFYP, while the agricultural investments were kept roughly at 15 percent in both plans.

A special emphasis was given to the expansion of the industries producing capital goods and intermediate products, in both FFYP and the SFYP. Increased production in these industries was expected to reduce the import requirements as well as to stimulate further investments in productive fields. The basic difference in the strategies to the two plans is that the FFYP assigned a leading role to the public sector in the industrialization while the SFYP relies heavily on the private initiative.

In view of the past experience, the direction of industrialization envisaged in the SFYP seems to be very difficult to accomplish without effectively using the potential of the public sector. Private entrepreneurs prefer investments in the consumer goods industries for very understandable reasons. Heavy industries require large amounts of capital, technological know-how and risk, while the consumer goods industries assure quick profits even with small investments.

The developments in the manufacturing industry in recent years support this. Despite measures of encouragement, the favored industries such as machine building, and electronics have been behind targets whereas consumer goods industries in general, and food and beverages in particular, have surpassed the projected production levels. Also, in the area of consumer durables, assembly plants have been encouraged by highly protective tariffs and often with quotas. As a result, even though the output in the manufacturing industry has increased substantially during the plan years

the pattern of industrialization is different from the one outlined in the plans. Concentration on consumer goods and assembly-type industries should be expected to adversely affect the level of domestic savings on the one hand and increase the import requirements on the other. Turkey's raw material and semi-manufactured import requirements increased in recent years at the same rate of increase in industrial production, that is, by roughly 10 percent annually. Also, the high-level protection extended to these industries encouraged the establishment of uncompetitive and inefficient small-scale plants, operating with high rate of profits in the domestic market only.

Meanwhile, the structure of the Turkish economy has gone through some changes. Table 2 shows the relative shares of the economic sectors within the total value added, from 1952 through 1970.

During the ten years prior to the plan, the share of agriculture went down from nearly 50 percent of the total value added to 41 percent, while industry grew from 12 percent to approximately 17 percent and services from 38.3 to 42 percent within the total. On the other hand, at the end of eight years of plan implementation the structure of the net domestic product is considerably different from the plan projections. The proportion of both agricultural and industrial value added is behind the projected share.

Table 2

Structural Change of the Turkish Economy

(1952-1970)

	(As Percentages of Net Domestic Product)					
	1952	1962	1967		1970	
			<u>Planned</u>	<u>Actual</u>	<u>Planned</u>	<u>Actual</u>
Agriculture	49.7	41.1	36.1	35.3	32.7	30.6
Industry	12.0	16.9	21.6	19.4	22.5	20.6
Construction	4.1	5.6	6.7	6.2	6.4	7.3
Transportation	6.4	6.7	7.9	6.8	6.8	7.3
Housing	2.5	3.5	2.5	3.5	3.4	3.4
Other Services	25.3	26.2	25.2	28.8	28.2	30.8
Net Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0

Source: State Planning Organization

From this observation, one would draw different conclusions depending on different assumptions. One conclusion may be that planning in Turkey has not been successful in changing the structure of the economy. The sectors that produce "goods" did not grow according to plan targets while the "service" producing sectors surpassed the plan targets. Another conclusion might be that the coefficients used in the plans describing the relative growth in different sectors were incorrectly estimated. In other words,

the assumption of the SFYP that goods and services producing sectors were to grow at approximately the same rate was inappropriate. Such an outcome calls for a review of the plan coefficients. A third and probably more likely possibility is that the output of the services sector is overestimated. Further exploration of this last point is beyond the scope of this paper.

It would be also revealing to examine the changes in the average and marginal productivity of labor and capital in different sectors, as an indicator of the structural change. But because of the scarcity of the data, an attempt has been made to estimate only changes in the average productivity of labor from 1955 throughout 1970.

Table 3

Average Productivity of Labor

	In 1961 prices						
	In TL.						
	1955-62 (1)	1967-69 (2)	(2/1)	1968-70 (3)	(3/2)	1963-70 (4)	(4/1)
Average output/labor ratio							
Agriculture	1.998	2.272	113.7	2.484	109.3	2.350	117.6
Industry	8.723	9.351	107.2	10.613	113.5	9.898	113.5
Services	13.642	13.701	100.4	13.744	100.3	13.720	100.6
All Sectors	3.810	4.633	121.6	5.542	119.6	4.987	131.0

Source: FFYP, SFYP, 1971 Annual Program

Table 3 shows that the average productivity of labor was 31 percent higher during the plan years compared with the eight years average prior to the plan implementation. On the other hand the average productivity of labor has not changed in the services sector, while it has increased by 17.6 percent in agriculture and 13.5 percent in the industry. The reason why the average productivity of labor in agriculture increased by a relatively higher rate is because of the fact that the employment in agriculture has been stable in recent years, as it will be revealed in the discussion of the employment situation.

B. Export Performance

The role of the exports in the growth process is many sided. The continuous increase in a country's exports indicates an increased demand for the domestic production, and thus provides a direct stimulus to the growth process. This important aspect of export growth is often overlooked in planning and exports are treated as a source of foreign exchange only. This is not to suggest that the latter aspect of exports is unimportant. In plan implementing countries, the accelerated investments, increased level of production, and overall increased domestic demand contribute to the high demand for imports and thus for foreign exchange. In countries where services do not contribute to the total foreign exchange earnings in a major way, and where foreign aid is either found unreliable or not forthcoming in substantial amounts, exports are the only source for financing the high level of imports.

Alongside the need for increased exports, the diversification of exports is also important from the development point of view. The specific problems that may originate from a heavy reliance on one or two agricultural commodities are all too well known to be elaborated here. On account of this, diversification of exports has become a priority target in many countries' development plans. The setting of such a target also implies a rise in the share of manufactured products within the total export bill.

In Turkey, exports did not show any increase in value during the ten years prior to 1964. Partially under the influence of this unfavorable development the export targets were held at a modest level in the FFYP. Once the export earning started to pick up in 1964 the targets of the FFYP were surpassed by more than 10 percent. On the other hand SFYP envisaged a 7.2 percent annual increase for exports. Despite increases in the export earnings in the first three years of the SFYP period, the rate of increase has been behind the plan target.

Table 4 shows the relative share of different commodity groups within the total exports as well as the absolute level of exports earnings from 1960 through 1969.

38

Table 4
Structure of Turkey's Exports
(in percentages)

	Agricultural Products			Manufactures		Minerals	Total Exports
	Value of Exports	Cotton Tobacco Nuts	Total	Food Products	Total	Total	
1960	320.7	(50.2)**	81.6	(6.0)	8.6	9.8	100.0
1962	381.2	(58.9)	87.9	(2.6)	5.4	6.7	100.0
1963	368.1	(56.0)	87.6	(3.5)	7.8	4.6	100.0
1964	410.8	(57.8)	84.0	(5.3)	9.8	6.2	100.0
1965	463.7	(56.0)	85.9	(2.4)	5.9	8.2	100.0
1966	490.5	(60.7)	85.2	(2.2)	5.0	9.8	100.0
1967	522.7	(65.4)	88.8	(2.2)	4.0	7.2	100.0
1968	496.4	(64.0)	87.0	(1.4)	4.9	8.1	100.0
1969	536.8	(57.9)	82.4)	(3.8)	9.4	8.2	100.0

Source: State Institute of Statistics, Annual Foreign Trade Statistics

* Value of exports in million US\$.

** Figures in parentheses show the share of each group within the total exports.

The value of Turkey's exports increased by a little over 6 percent annually during the plan years. The increase in exports earnings can be attributed basically to the sudden jump of the external demand for Turkey's three traditional export commodities, namely tobacco, cotton, and nuts. Cotton exports from a level of 46.5 million dollars in 1960 went up to nearly 140 million dollars in 1968. Tobacco exports reached its peak in

Despite efforts to promote exports of industrial origin, their share in the total gradually declined through 1968. Food products led manufactured goods, and textiles and clothing were second on the list. Only in 1969 was there a significant jump in food and textile exports but it is too early yet to consider this a trend.

A system of tax rebate has been used in Turkey as a measure to promote exports, basically for the manufactured commodities. Until 1967, an ad hoc committee (IVIK) associated with the Ministry of Finance determined the rates and stipulations to be applied to various commodities. The duties of this committee were later transferred to the newly established Department of Investment and Export Promotion and Implementation of the State Planning Organization. ^{-29a-} "Lowering the cost of export credits", the establishment of a low interest "a special export fund" and "an export promotion fund" are among the measures currently applied. Also, provisions have been made to give priority to importers in the allocation of foreign exchange as well as measures taken to reduce the number of bureaucratic formalities.

The experience of recent years is not very encouraging as far as the results achieved in diversifying Turkey's exports and in increasing the volume of industrial exports. Some of the measures mentioned are rather recent and may show their impact in the long run. Another development that is being followed with interest is the impact of the August 1970 devaluation on exports. One of the obvious reasons behind this move was of course to give a boost to Turkey's exports.

1967 with 118 million dollars compared with 65.5 million dollars in 1960. The increase for nuts was from 45.9 million in 1960 to 115.2 million dollars in 1969. Thus while Turkey's exports grew in the 1960's approximately at the same rate with the exports from the underdeveloped countries, there has hardly been any change in their distribution. The share of agricultural products was persistently above 80 percent of the total, and cotton, tobacco and nut exports constituted between 50 and 65 percent of the overall exports throughout the period.

[Insert p.29a]

C. Mobilization of Domestic Resources

Development planning involves a more efficient utilization of the existing capacity on one hand and broadening the resource base on the other. One important aspect of enlarging the resource base is the increased mobilization of the domestic savings. In Turkey, the targets for domestic savings in the five-year plans were determined from the figures for gross investments after allowance was made for the expected external savings throughout the plan period.

In the formulation of the FFYP, an implicit marginal capital output ratio of 2.62 was assumed. Furthermore this ratio was expected to increase from 2.42 in 1963 to 2.77 in 1970. The reason given in the FFYP document for the assumption of a gradual increase in the capital coefficient was the presence of unused capacity which was expected to be rapidly utilized in the earlier years of plan implementation. Accordingly, the ratio of gross fixed investments to the gross national product was expected to increase from an average 14.8 percent in the 1957-61 period, to 17 percent in 1963

and 19.4 percent in 1967, averaging 18.3 percent for the FFYP period. On the other hand, it was suggested in the FFYP that the contribution of external savings would be about 3.5 percent of the gross national product while domestic savings would make up for the remaining 14.8 percent. This meant an effort of 2 percentage point increases in domestic savings from 1957-1961 level.

In the estimation of the above investment and saving requirements, stocks were not taken into account. In the SFYP stock estimates were also included in the projections. The marginal capital-output ratio for the SFYP based on total investments, including the stocks, was 3.24 on the average, increasing from a level of 2.94 in 1968 to 3.47 in 1972. Given the investment requirements of 22.7 percent of the gross national product in the SFYP period, domestic savings were expected to increase from 18.6 of the gross national product in 1968 to 22.6 percent in 1972, averaging 20.8 percent. The contribution of the external savings was expected to be on the order of 1.9 percent of the gross national product for the period under consideration.

Table 5 shows the developments in the mobilization of domestic savings. The ratios given here for the average domestic savings are not directly comparable to the ones given in the FFYP, because Table 5 figures take into account the stock changes also, whereas FFYP saving projections are based only on fixed investments. Nevertheless, the figures in the Table indicate the changes in the level of saving and provide sufficient information to evaluate the plan targets.

Table 5
Mobilization of Domestic Savings

In million TL., in 1965 prices

	Gross Savings(S)	External Savings(S_f)	Domestic Savings(S_D)	$S_d/$ GNP	$S_f/$ GNP	$S_f/$ S	Chain Index of S_d Increase
1957-1961	--	--	--	14.50	2.00	12.12	--
1963	12,029.5	2,943.0	9,086.5	13.60	4.41	24.38	--
1964	12,167.7	981.0	11,186.7	15.98	1.40	8.10	123.1
1965	12,710.0	684.0	12,026.0	16.43	0.93	5.36	107.5
1966	16,224.3	1,422.0	14,802.3	18.33	1.76	8.76	123.1
1967	16,865.1	1,026.0	15,839.1	18.49	1.20	6.10	107.0
1963-1967	--	--	--	16.57	1.94	10.54	--
1968	19,527.0	1,998.0	17,529.0	19.19	2.19	10.24	110.7
1969	20,860.7	1,926.0	18,934.7	19.49	1.98	9.22	108.0
1970	22,230.9	2,219.0	20,011.0	19.75	2.18	9.94	105.7
1968-1970	--	--	--	19.48	2.12	9.80	--

Source: FFYP and 1971 Annual Program

The level of domestic savings went from 13.5 percent of the gross national product in 1963 to 18.5 percent in 1967, averaging 16.6 percent for the FFYP period. Compared to the 1957-1961 period this corresponds to an approximate 2 percentage point increase which was the target given in the FFYP. Thus, even though the increase in domestic savings in absolute terms did not reach the targets, in terms of the relative efforts, plan targets were fulfilled. On the other hand, external savings fell short of the plan projections. The level of external savings averaged about 2 percent of the gross national product instead of the expected 3.5 percent. As a result, 10.5 percent of the total investments were financed by external resources instead of 19 percent as was expected in the FFYP.

In the SFYP period, the rate of increase in domestic savings slowed down and was around 19.5 percent of the gross national product for the first three years, which corresponded to the plan targets. The actual level of external savings was also close to the plan projections for the same period.

The targets for domestic savings in FFYP and the realization figures in annual programs have been given in totals only, and thus it is not possible to separate private savings from public savings. But the investment figures for public and private sectors as well as the statistics on public accounts indicate that savings of both types increased at rates not too different from each other.

Another indicator of the volume of the domestic resource mobilization is the increase in the total revenues of the government in general and the tax revenues in particular. Table 6 shows the actual size of the govern-

Table 6
Public Revenue and Expenditures

(As percentage of GNP)

	1963-67		1968-70		Actual		
	Planned	Actual	Planned	Actual	1963	1967	1970
Total Revenues	28.6	23.7	29.6	26.8	22.8	24.8	28.9
(of which) Tax Revenues	17.2	14.4	18.8	16.4	13.3	15.7	17.5
Total Expenditures	29.2	24.6]	29.6	27.7	23.8	25.3	28.5
Current Expenditures	13.5	11.7	13.8	12.0	11.6	12.1	12.2
Investments	10.9	9.1	11.7	10.8	8.2	9.5	11.0
Transfers	4.7	4.0	4.2	4.5	4.0	3.7	5.4

Source: Annual Programs

ment revenues and tax revenues in contrast with the planned levels. Also shown in the table are the various forms of public expenditures.

Even though the actual revenues of the government fell behind the targets throughout the plan implementation, the share of these revenues within the gross national product increased from 22.8 percent in 1963 to 28.9 percent in 1970. On the other hand tax revenues rose from 13.3 percent of the gross national product in 1963, to 15.7 percent in 1967, and to 17.5 in 1970. The increase in tax revenues was due more from changes in the tax system

than as a response to income increases. A number of new taxes was introduced and changes were made in the nature of the existing taxes during the Plan years. As will be further elaborated in the discussion of tax reform, these measures were designed with a view to increase the tax revenues, and they were successful in this respect.

The public expenditures shown in Table 6 cover the current expenditures made mainly from the budget, the investments of both State Economic Enterprises and budgetary agencies, and transfers made from the budget, such as debt payments. It is important to note here that the share of the current expenditures within the gross national product did not increase significantly from 1963 to 1970, while the government revenues were growing. The experience elsewhere is that current expenditures keep pace with the revenue increases. The government in Turkey clamped down on the demand for salary increases up until 1970. But an overall salary increase of more than 50 percent is planned for 1971, which will certainly be reflected in the current expenditures. On the other hand, the relative share of the public investment expenditures in the gross national product increased visibly, from 8.2 percent in 1963 to 11 percent in 1970. The nature of this increase will be more obvious when the evaluation of the plan investments is made.

D. Capital Formation

Since the beginning of the plan implementation, the gross fixed investments have shown a marked increase both in absolute amount and as a percentage of the gross national product. Table 7 shows the changes in the gross fixed investments from 1953 through 1970, its distribution between the public and private sectors, and between machinery and construction.

Table 7

Gross Fixed Investments

	In 1961 Prices		
	1953-62	1963-67	1968-70
Gross Fixed Investment			
Total	70,658	53,846	49,317
Annual	7,066	10,770	16,440
As Percentages of GNP	15.8	17.0	20.3
Private	53.1	47.5	46.8
Public	46.9	52.5	53.2
Total	100.0	100.0	100.0
Machinery & Equipment	32.7	31.0	--
Construction	67.3	69.0	--
Total	100.0	100.0	--

Source: State Institute of Statistics, "National Income, 1938, 1948-1969", 1971 Annual Program

According to Table 7 gross fixed investments averaged approximately 7 billion TL annually during the ten-year period prior to plan implementation. The FFYP investments were 52 percent higher than this average at an annual level of nearly 10.8 billion TL. During the three years of SFYP, average annual investments increased by another 53 percent compared with the FFYP period. Meanwhile the share of gross fixed investments in the gross national product increased to 17.0 in the FFYP, from a level of 15.8 in the 1953-62 period, to 20.3 percent in the SFYP period.

Before plan implementation began, private investments constituted more than half of total investments. But this trend has reversed since 1963, and public investments increased to 52.5 percent of the total in the 1963-67 period and to 53.2 percent during the last three years. On the other hand there has not been a drastic change in the composition of total investments; machinery and equipment amounted to 32.7 percent and 31 percent of the total investments, during the pre-plan period and the FFYP period, respectively.

After observing the general trends of capital formation in Turkey, it is revealing to examine the implementation of the plan targets and the distribution of investments among different sectors.

The following table shows the rate of implementation of the investment targets as they appeared in the annual programs.

Table 8

Implementation Ratios of Sectoral Investment Targets
in Annual Programs

	<u>1963-67</u>			<u>1968-70</u>		
	<u>Public</u>	<u>Private</u>	<u>Total</u>	<u>Public</u>	<u>Private</u>	<u>Total</u>
Agriculture	.84	.99	.89	.86	1.05	.94
Mining	.88	.84	.87	1.01	.76	.95
Manufacturing	.70	1.16	.95	1.08	.94	.99
Energy	.72	.37	.69	1.00	1.06	1.00
Transportation	.93	1.27	.99	1.12	1.00	1.08
Tourism	.32	.83	.58	.87	.83	.84
Housing	.99	1.07	1.07	1.47	1.03	1.06
Health	.80	.80	.80	1.00	.96	1.00
Education	.89	.96	.90	.91	1.04	.91
Other Services	1.00	1.57	1.12	1.03	.95	1.00
Development Funds	--	--	--	.84	--	.84
TOTAL	.83	1.08	0.94	1.02	.99	1.00

Source: Annual Programs

Table 8 indicates that the investment targets of the FFYP were realized by 94 percent, while 100 percent realization was achieved in the SFYP period. On the other hand, in the FFYP period the public sector was able to fulfill only 83 percent of the targets against more than 100 percent realization for the private sector. The rate of implementation is approximately equal for the public and private sector in the SFYP.

In the FFYP period implementation in housing, transportation and manufacturing investments were the highest in that order. The lowest implementation was found in the tourism and energy investments. The rate of implementation is relatively high in all sectors, over 90 percent, with the exception of tourism investments. The major factor behind the relatively higher realization ratio in the SFYP is the large investment projects in the public sector reached the implementation stage. These projects were conceived during the FFYP, but their implementation was delayed on account of problems in project preparation and domestic and foreign financing.

Caution must be exercised in evaluating the implementation ratios given in Table 8. The targets set in the annual programs for investments in a given year are determined by the prices of two years earlier. That is, the investment targets for 1966 in the 1966 Annual Program are expressed in 1964 prices. This is because the most recent prices available in the preparation of the 1966 Program were the 1964 price figures. Since the implementation figures are not later on adjusted to the price changes, the implementation ratios reflect the increases in the prices of investment goods during these two years and are biased on the high side. A second warning is that all these ratios reflect the expenditures made on individual

projects. They do not necessarily reflect the physical accomplishment. A third point is that the estimates made for the private sector investments are only in the nature of approximations, since the statistics in this area are very crude.

It is also very important to compare the actual sectoral distribution of investments with the planned and programmed targets. In Table 9 this comparison is made for both the FFYP and the SFYP periods.

Table 9
Sectoral Distribution of Fixed Investments in Plans,
Annual Programs, and Realization

	<u>1963-67</u>			<u>1968-72</u>		
	FFYP	Annual Programs	Realization	SFYP	1968-70 An. Programs	1968-70 Realization
Agriculture	17.7	16.2	15.3	15.2	14.8	13.4
Mining	5.4	6.1	5.6	3.7	3.0	3.0
Manufacturing	16.9	19.0	19.5	22.4	23.3	23.1
Energy	8.6	8.3	6.1	8.0	8.9	9.1
Transportation	13.7	14.9	15.7	16.1	15.4	16.4
Tourism	1.4	2.1	1.3	2.3	2.6	2.1
Housing	20.3	19.4	22.3	17.9	18.4	19.8
Health	2.3	2.0	1.7	1.8	1.7	1.7
Education	7.1	6.9	6.5	6.7	5.8	5.3
Other Services	6.6	5.1	6.0	5.5	5.9	5.9
Development Fund	--	--	--	0.4	0.2	0.2
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

Source: FFYP, SFYP, and 1971 Annual Program

Housing investments in both plan periods seem to have claimed a relatively larger share of the total investments than actually planned. Investments in agriculture, tourism, and education actually shared a relatively smaller portion of the total than planned, while the share of other sectors' investments was close to the planned proportions.

E. Employment

Like other underdeveloped countries with a relatively high population growth, Turkey faces a serious unemployment problem. The paucity of employment statistics, particularly in agriculture and services, presents difficulties in studying the trends; nevertheless, they sufficiently reveal the seriousness of the problem. The supply of labor increases by approximately 3 percent annually at present while the demand for labor has not been growing even at half of the rate of increase of supply.

Creating new employment opportunities, and thus helping to solve the unemployment problem in the long run, was one of the explicit targets of the FFYP. The Plan recognized that approximately 8.5 million new jobs were needed during the 15 year period between 1963-78 in order to solve the problem, but envisaged that only 6.8 million new jobs were to be realized, assuming the investment and production targets of the Plan were fulfilled. Some 2.1 million new jobs were projected for the first five years covering the 1963-67 period.

However, employment was not among the primary targets of the Second Five Year Development Plan. Employment was seen as a function of the rate

of growth of the gross national product. The Second Plan reads "... during the 1968-72 period efforts to create employment will be treated as a result of the rapid growth of the economy and will not be considered as an independent goal outside the general development." Also, a number of rather vague policy measures were specified in the Plan concerning employment, such as "emphasis will be given to sectors which have high employment potential," and "in all sectors high priority will be given to projects which offer many employment opportunities and which would save capital and create employment without increasing production costs."⁴

It was also estimated in the SFYP that the absolute level of unemployment in non-agricultural sectors would grow slowly from 399,000 in 1967 to 470,000 in 1972 and the unemployment rate would come down from 9.5 percent in 1967 to 8.2 percent in 1972. Also a sharp reduction in both the absolute level and the rate of disguised unemployment was expected in the agricultural sector.

The employment targets of the FFYP fell considerably short of being realized. Table 10 shows what happened in employment during the 1963-67 period.

Employment increased at a relatively faster rate in the FFYP period compared with the average annual increases during the previous seven years, in all sectors except agriculture. The overall annual increase in employment during the plan period was 1.8% on the average, while it had been approximately 1.3% during the previous years. Nevertheless the new employ-

4. SFYP, pp. 141, 149.

Table 10

Changes in Employment

(in thousands)

	1955	1962	Annual Rate of Increase 1955-62	1967	Annual Rate of Increase 1962-67	Planned Increase 1962-67	Actual Increase 1962-67	Difference
Agriculture	9,446	9,727	0.4	9,940	0.4	700	213	-487
Industry	805	1,048	3.9	1,424	6.2	316	376	60
Construction	200	319	6.9	472	8.1	204	153	-51
Trade	341	418	3.0	498	3.6	800	474	-416
Transportation	190	253	4.2	339	6.1			
Services	496	759	6.3	1,066	7.0			
Total	11,479	12,524	1.3	13,739	1.8	2,110	1,215	-894

Source: Based on information given in SFYP (1968-1972)

ment created during the 1963-67 period fell considerably behind targets in agriculture and services while industrial employment increased more than the forecast. On the whole the shortfall in the employment expectations was a little over 40% over the Plan period.

The unavailability of reliable time series for change in employment in Turkey has already been pointed out. The SPO revised the employment statistics once again, with the 1971 Annual Program. The estimates are based on the 1965 Census results and indicate a relative worsening of the employment situation in recent years. Table 11 summarizes these new estimates.

Table 11

New Employment Series and Excess Labor

	1965 (census results)	1967	1969 (in thousands)	1971 (estimate)	Annual Percentage Change (1971-1967)
Agriculture	8,772	9,044	8,897	8,769	-1.0
Industry	1,074	1,240	1,402	1,549	5.7
Construction	351	409	470	529	7.2
Trade	332	366	420	457	5.7
Transportation	287	321	366	411	6.4
Services	837	977	1,130	1,298	7.4
Not specified	413	413	413	413	--
Demand for Labor (Total)	12,016	12,770	13,098	13,426	1.0
Supply of Labor	13,044	13,792	14,581	15,436	2.9
Excess Labor	1,028	1,022	1,483	2,010	
External Demand	0	43	190	420	
Final excess labor	1,028	979	1,293	1,590	

Source: 1971 Annual Program, Tables: 426, 427.

According to new employment figures, the level of unemployment has been growing rather rapidly since 1965. Demand for labor increased by only 1 percent during the SFYP period. This compares unfavorably with both the FFYP period, and pre-plan years. The level of unemployment is expected to reach 10.3 percent in 1971 from the level of 7.9 percent in 1965.

The worsening of the employment situation in Turkey, coincides with a period when Turkish workers migrated to Western Europe in increasing numbers. Since 1964 approximately 500,000 Turkish workers have found employment in Western Europe, mostly in Western Germany. This total is equal to nearly one third of the employment in industry in Turkey at present. In the short run, it has helped to ease the unemployment problem. Without this external demand for the Turkish labor, the level of unemployment in Turkey would have been no less than 13 percent by 1971.

The labor migration from Turkey, on the other hand aggravates the problem of a skilled labor shortage. In Turkey despite a very high level of unutilized labor, serious shortages have persisted in the field of skilled labor, and given the present educational and training capacity the gap, particularly in technical manpower will widen in the coming years. Even though the government's policy has been to send abroad only the unskilled labor, no less than 50 percent of the outgoing labor had some degree of skill.

These pieces of evidence suggest that planning in Turkey has not so far made a tangible impact on the employment problem, and if anything, both

the absolute level and the rate of unemployment have increased. The employment strategy of the SFYP has proven to be ineffective in view of the severity of the problem. It is generally correct to expect increases in job opportunities as the economy grows at relatively high rates. Nevertheless, it would be unrealistic to expect job increases to be at levels necessitated by rapid growth of the labor supply, without carefully designed employment policies. The fact that employment has not followed the increases in investment and output is not unique to Turkey; most underdeveloped countries have gone through a similar experience.

A combination of factors contribute to the present crisis in employment. The singlemost important factor aggravating the employment problem everywhere is the high rates of increase of population in general and in urban population in particular. For example, given the present 2.6 percent annual population increase in Turkey, it does not seem feasible to gainfully employ all the newcomers to the labor force which itself grows at 2.9 percent annually, without seriously hampering the productivity and growth. Even though any immediate reduction in the birth rate will not affect the labor supply for the next fifteen years, the long term solution of the unemployment problem relies on the population policies to a great extent.

A second observation in connection with the unemployment problem in underdeveloped countries is the overall impact of the government economic policies. More specifically in most countries the present policies concerning wages, foreign exchange and rate of interest do not usually favor

the use of more abundant factor which is the labor. The actual pattern of development in labor surplus economies does not follow the theoretically appealing A. Lewis's model of "unlimited supplies of labor", where the wage rate does not change in the non-agricultural sectors as long as there is a supply of excess labor in the rural sector. Instead, the wages in urban sectors have increased well above the rural wage levels and at faster rates than productivity increases, as a result of government minimum wage policies and the increased bargaining power of the trade unions. This has been a significant factor in discouraging the use of labor intensive technologies.

On the other hand, the rate of interest has been deliberately kept at relatively low levels in order to encourage investments. This in turn resulted in the encouragement of capital intensive techniques, against the labor intensive ones. In addition to low interest rate policy, the government's have encouraged the capital goods imports by maintaining overvalued currency and through special provisions made for capital goods imports. Even though some of these policies can be defended in isolation, nevertheless all together they have adversely affected the employment situation and distorted the resource utilization.

These general observations are also valid in the Turkish case. It is true that the urban wages increased more rapidly than the rural wages and beyond the actual productivity increases. For example, before the legislation of the collective bargaining the real wages of labor covered by social insurance increased by approximately 1 percent annually in the 1953-63

period, After the collective bargaining legislation the annual real wage increases have been on the order of 5.5 percent since 1964.⁵ Meanwhile the average increase in labor productivity has been considerably less than this as Table 3 indicates. Also, the rate of interest has been pegged at relatively low rates for the investors in both private and public sectors. And the Turkish lire has been greatly overvalued throughout the plan years. All these factors contributed to the discouragement of the labor intensive industries and technologies in Turkey. The result has been increased unemployment.

The Turkish public sector has invested in some large scale undertakings such as petro-chemicals, paper, and fertilizers, and once these plants start production, they will have a favorable impact on employment. Nevertheless the problem of unemployment remains as a formidable challenge to the policy makers and requires a more straightforward approach within the framework of economic planning. It would be ~~mis~~^{mis}leading to conclude from the above observations that a simple solution to the problem lies within the range of policies hitherto discussed. They did contribute to the worsening of the problem, but a realistic solution also involves the consideration of the bigger issues of capital formation and choice of technology in relation to long term economic development, as will be discussed in connection with economic policies.

5. 1971 Annual Programme, Official Gazette, p. 215.

F. Self-Sustained Economic Growth

Self-sustained economic growth was a high priority target of both the FFYP and SFYP. According to the definition adopted in both plans, reaching the stage of self-sustained growth--or viability--meant maintaining a 7 percent annual rate of growth without resorting to any concessionary foreign credits, that is, long term credits with low interest rate and often with a grace period.

Throughout the last two decades, the current accounts of Turkey's balance of payments have consistently shown a deficit, indicating that there has been continuous resource transfer from the rest of the world. The size of the current account deficit varied between 50 million dollars in 1950 and 300 million dollars in 1963. During the ten years prior to plan implementation, the size of these resource transfers were about 2.2 percent of the gross national product, 15 percent of the total fixed capital formation and, 16 percent of the imports. Some 35 percent of all the transfers were financed through private channels, mostly in the form of suppliers' credits, and the remaining 65 percent were public transfers.

During the years of plan implementation resource transfers to the Turkish economy from external sources has continued in increased amounts, even though they fell short of the projected levels. The size of these transfers has already been discussed in connection with the domestic resource mobilization. It is important to note here though, that during these years, the practice of borrowing through suppliers' credits and commercial channels was discontinued. Turkey has borrowed mainly through

a Consortium made up of 14 countries led by the United States and Western Germany. The Consortium credits have averaged 250 million dollars annually, some 50 percent of these were in terms of program assistance, 20 percent was debt relief and the remaining 30 percent were tied to various projects. The majority of these credits was tied to the country of origin, carrying on the average a little less than 4 percent rate of interest with over 20 years of maturity and some grace period.⁶

As a result of this heavy borrowing Turkey has accumulated a relatively large external debt, reaching approximately 2 billion dollars by the end of the sixties. Servicing of the external debt has been about 20 percent of Turkey's export earnings.

In Turkey's FFYP, the target year for reaching viability was envisaged to be around 1978; the end of the Third Plan period. The possibility of accomplishing a viable economy by the end of the Second Plan was also mentioned. The SFYP made the target date more specific, calling for a "viable" economy by the end of 1975. However, both Plans specified that beyond the date of viability Turkey would continue to be an importer of capital either in terms of foreign private investments or commercial credits. Also, the achievement of this target was stated to be dependent upon the condition of Turkey's reaching planned investment and output targets, which in turn necessitated an uninterrupted inflow of external credits on specified terms and quantities throughout the Plan implementation.

6. B. Tuncer, "An Overview of the External Financing Mechanism of the Turkish Economy," The Turkish Yearbook of International Relations, 1967, Ankara 1970, p. 3.

One of the preconditions of achieving viability in any economy is to generate domestic savings at levels necessitated by investments which in turn is determined by the desired rate of gross national product growth and/or employment levels. Thus in order to reach the stage of self-sustained economic growth by 1975, the so-called "savings gap" of the Turkish economy, which has been persistent throughout the last two decades, needs to be closed within the next five years.

The performance of the Turkish economy in terms of raising the level of domestic savings has been discussed elsewhere in this paper. Here an assessment of the realism of this target and the prospects for achieving it will be made, in view of the plan implementation and recent developments.

Table 12
Saving Gap in the Turkish Economy
(In Percentages)

	<u>Plan Targets</u>			<u>Actual</u>		1975
	1967	1972	1968-72 Average	1967-63 Average	1970-68 Average	
Gross Investment/ GNP	19.9	24.3	22.7	18.5	21.6	25.2
Implicit Incremental c/o Ratio	2.84	3.47	3.24	2.76	3.66	3.60
Domestic Savings/ GNP	17.9	22.6	20.8	16.57	19.5	25.2
External Savings/ GNP	2.0	1.7	1.9	1.9	2.1	0.0

Source: SFYP and 1971 Annual Programs.

Table 12 illustrates the nature of the problem and the size of the required effort. As can be seen from the table, in order to eliminate the external saving requirements by 1975, approximately 25% of the gross national product will have to be saved in that year. At present, the average saving ratio is 19.5%. Raising the average savings from about one fifth of the GNP to one fourth implies nearly a 40% marginal saving ratio. Despite some commendable efforts in the area of taxation, the marginal savings ratio has been around 30 percent during the plan implementation and, given the present policies, raising the domestic savings to required levels by 1975 seems unlikely.

On the other hand, recent trends indicate that there is room for lowering the saving requirements from the levels indicated in Table 12. In recent years the incremental capital output ratio seems to be growing without justification. A better utilization of the existing capacity should lower the need for additional savings. Thus it can be argued that as far as the saving requirements are concerned, the Turkish economy could accomplish self-sustained growth at around 7 percent through a conscientious policy of both increasing savings and making better use of existing production capacity, probably not in 1975 but within a decade. Nevertheless, the present trends do not warrant this optimism.

The second broadly accepted prerequisite of achieving viability is to remove the balance of payments deficit or at least to reduce it to manageable levels through foreign investments and/or commercial credits. This can be achieved on one hand through increasing the exports and other foreign

exchange earnings at a rapid pace, and lowering the rate of growth of imports and other foreign exchange spending on the other. Turkish plans relied on both courses of action, the FFYP leaning more heavily on import substitution measures, and the SFYP emphasizing the importance of export promotion.

13

In Table 13 the balance of current account of the balance of payments is reconstructed in terms of plan targets and actual realization.

Table 13

Balance of Current Accounts

(in million U.S. \$)

	<u>Planned</u>	<u>Actual</u>			<u>Planned</u>		<u>Actual</u>	
	<u>1963-67</u>	<u>1963-67</u>	<u>1967</u>	<u>1968-72</u>	<u>1968-70</u>	<u>1972</u>	<u>1968-70</u>	<u>1970</u>
	<u>Annual</u>	<u>Annual</u>		<u>Annual</u>	<u>Annual</u>		<u>Annual</u>	
	<u>Average</u>	<u>Average</u>		<u>Average</u>	<u>Average</u>		<u>Average</u>	
Balance of Trade	-241	-189	-162	-350	-327	-395	-294	-350
Imports	-641	-640	-685	-973	-903	-1.115	-833	-935
Exports	400	451	523	623	577	720	539	585
Invisibles (of which)	- 61	6	34	118	97	159	61	103
Tourism	4	-13	-14	29	9	70	5	-2
Workers remittances	--	57	93	157	150	170	159	230
Infrastructure and Off-share	51	26	14	12	13	10	9	10
Balance of Current Accounts	-249	-157	-114	-220	-216	-226	-224	-237

Source: FFYP, SFYP, and 1971 Annual Program

At the end of five years of FFYP implementation the total current account deficit was considerably smaller than the deficit envisaged in the Plan. During this period exports grew at a faster pace than projected while import projections were fully realized. But the factor that contributed most to the improvement of balance of current accounts was the 287 million dollars worth of remittances from the Turkish workers in Western Europe, during the FFYP period. This was a totally unexpected development and FFYP had made no provisions for this possibility. However, the expected improvements were not realized in tourism earnings and this item continued to give a net deficit throughout the period.

For the SFYP period, during the first three years of implementation, imports, exports and invisible earnings have been running behind the target, although not by a very wide margin. This is not very surprising, considering the relatively lower level of economic activity as evidence by sectoral growth rates.

In view of these developments the prospects for closing the so-called "balance of payments gap" are not encouraging. Even in the SFYP, the current account deficit was expected to be on the order of 226 million dollars. This does not reflect an improvement over the actual size of the deficit during the previous decade. Thus at the outset the SFYP was not realistic to assume that the current account deficit would disappear or get significantly smaller by 1975. Currently the current account deficit is running slightly higher than SFYP projections for the same years, and it is likely that by 1972 it will be larger than originally expected.

In discussing the viability issue, one has to consider also the repayment of external debt. So, what actually determines the true size of the external deficit is the current account deficit on one hand and the yearly installment on the existing debt. As already mentioned Turkey's outstanding external public debt is around 2 billion dollars. Annual payments for the amortization of this debt is scheduled to be around 85 million dollars through 1975.⁷

These statistics indicate that the Turkish economy's reaching self-sustained growth at 7% by mid-1970's, is extremely unlikely if not totally impossible. It is yet early to judge the impact of recent devaluation on the balance of payments but it would be unrealistic to expect devaluation alone to change the overall picture. On the other hand, Turkey's resorting to credits on commercial terms on a large scale and as early as by 1975 may aggravate the present problems associated with external payments situation.

As far as the viability target is concerned, Turkish planning has not been very successful. This conclusion is more obvious in view of the fact that the workers' remittances have helped considerably in lowering the foreign exchange deficit; this has been ^Adevelopment which has had no direct connection with planning as such.

7. By definition, this figure does not include interest payments, which is another 45 million dollars annually.

G. Income Distribution

As stated earlier, one of the more explicit objectives of Turkey's development plans has been to reduce the existing disparities in personal and regional income distribution. Even though studies showing the exact nature and extent of the imbalance are scarce, the discrepancy in the levels of living is obvious.

A study conducted by the SPO revealed that in 1963, 20 percent of the families which made up the lowest income group had a share of 4.5 percent of the national income, while the highest 20 percent income group shared 57 percent. On the other hand, per family income in the first group was approximately 278 dollars, but 3,544 dollars in the latter group.⁸

In dealing with the problem of income distribution, planning documents suggested that the overall government policies should be in line with achieving a more just distribution. Tax policy would be altered to favor the poor; prices of basic commodities would be kept in line with the purchasing power of the lower income groups; and, education, health and other services would be extended to the underprivileged in increased quantity and quality.

In a study carried out by J. L. Enos,⁹ the change on the distribution of income from 1962 to 1966 was calculated. In this study Turkey's population is divided into six socio-economic groups: low income agriculture, middle income agriculture, high income agriculture, wages and salary earners, civil servants, and entrepreneurs. The study reveals that the share of

8. SFYP, op. cit., p. 63.

9. K. B. Griffin and J. L. Enos, Planning Development, Addison and Wesley, Oxford, London 1971.

the agricultural groups in the national income has fallen relative to that of non-agricultural groups, between 1962 and 1966. The combined share of the low income groups in the national income has also fallen, while the share of the middle income groups has stayed more or less constant and that of high income groups, made up of entrepreneurs and high income agricultural group, has increased. The study also shows that the share of tax burden of the low income groups has increased while the middle and high income groups has paid relatively less taxes, from 1962 to 1966.

Even though it is not possible to quantify the changes in the distribution of income through 1970, these limited studies, and observations such as the worsening of the unemployment, and the nature of various tax measures indicate that the distribution of income has not improved and more likely has worsened during the plan period.

On the other hand, there has always been a marked difference in the level of living between the large cities and rural areas on one hand, and between the Western and Coastal provinces, and the Eastern provinces on the other. Turkey's five year plans stated reducing the regional imbalances and accelerating the development of backward regions, as a priority target.

Despite the recognition of the problem and expressed intention to correct the situation, the policies that were formulated were vague. Plans suggested that priority would be given to the backward regions in terms of economic and social infrastructure projects. For the productive investments of the public sector, these areas would have priority if a certain project was equally profitable in both more and less developed parts of the country.

This latter policy had very little chance for application, since the backward regions had a clear disadvantage from the point of view of resource endowment and marketing. Also, for the same reasons, various types of incentives for the private sector to attract their investments to Eastern provinces, proved to be ineffective. In addition to these measures, emphasis was also given in the SFYP to certain projects such as animal husbandry, that seemed to be suited to exploit the local resource endowment.

A recent study conducted in the State Planning Organization to determine the socio-economic development of various regions in Turkey, revealed that in 1963, a composite index for development was 47 for the so-called 20 less developed provinces in the East, against an average of 100 for the whole country.¹⁰ From 1963 to 1968, the index showed a value of 65 for the same 20 provinces, while it was 138 for the country as a whole. This implies that the rate of socio-economic development of the less developed region was equal to the change in the country and thus there was no relative improvement for the poor provinces. On the other hand per capita public investments made in the 1963-67 period was relatively lower in less developed provinces, particularly if Keban hydro-electric project is excluded because its impact will be more on the Western part of the country. Statistics also show that savings and skilled labor have continued to move from less to more developed regions in recent years.

10. Socio-economic Development Index for Turkey on a Provincial Basis, SPO, June 1970 (Mimeographed).

H. Price Stability

The damaging economic, social, and political effects of inflation in the 1950's have made the policy makers very wary of price increases, and the maintenance of relative price stability has been an overriding concern of the governments in Turkey.

Several price indices are available in Turkey, but they are usually considered to be inadequate in reflecting the actual price changes, mainly because of their coverage. Given this note of precaution, the official indices indicate no marked price instability in the economy since the beginning of plan implementation in 1963. The wholesale price index showed an average 5.2 percent annual increase during the FFYP implementation, and it was averaging 7 percent in the SFYP period. The cost of living indices for two major cities indicated 5 and 8 percent increases for the FFYP and SFYP periods, respectively.¹¹ As can be seen, these indices also indicate that the price increases gained some momentum in the SFYP years, compared with the earlier years of plan implementation.

I. Reform and Reorganization

Development planning, by definition involves a deliberate attempt to change the existing socio-economic structure, with a view to speeding up the rate of economic growth and to distributing the fruits of development in a more egalitarian manner. Implicit in these prepositions is the assumption that certain institutions and the present organization of production

11. 1971 Annual Program, op. cit., p. 33.

stand on the way of achieving these broad developmental goals. Development plans often carry measures to deal with these barriers in a straightforward way. However, the implementation of such measures is not an easy matter, since any drastic change in the existing order meets with resistance of those groups who sense that their power and/or benefits will be impaired. Needless to say, these are the groups who carry weight in the politics of a country and thus exercise strong power over the governments.

Turkey's FFYP identified four major areas where reform and reorganization were urgently needed. These were land reform, tax reform, reform and reorganization of the State Economic Enterprises (SEE), and reform in the administration.

Land Reform: Land reform finds its expression in Turkey's 1961 Constitution as well as in the FFYP and in the annual programs through 1966, as a measure to promote social justice and increase productivity in the agricultural sector. An earlier attempt for land reform in Turkey was made in 1945, but it did not go beyond the distribution of some land that belonged to the State.

The attempts for a genuine land reform in Turkey, have always run into two basic problems. As expected, one problem was the usual resistance on the part of large landowners and the city dwelling absentee owners, a point that does not need much elaboration. The second problem was the lack of cadastral records establishing the boundaries of present land holdings as well as basic information and studies necessary for an effective reform. Those who opposed the land reform have successfully used this latter point as their strongest argument.

In the first three annual programs, the land reform was defended on grounds that it was essential to increasing yields in agriculture because the present land tenure was a source of inefficient farming. Land reform was defined not only in terms of distribution of large holdings, but also as a series of measures, including the consolidation of the fragmented plots, tooling of the farmers, and reorganizing the agricultural credits as well as encouraging the agricultural cooperatives.

Despite these pronounced policies, the governments did not take any serious action for a land reform, save a reform bill that was brought to the Parliament in 1965. Soon after this, there was a change in the government and the issue has laid dormant since then. In fact, in the official documents the term land reform was omitted, and in the SFYP an "agricultural reform" on very general terms was proposed.

Tax Reform: As stated in the planning documents, a reform in the tax system was expected to serve more than one purpose. It was to increase the government revenues, help improve the income distribution, and induce the private sector to invest according to the plan objectives. It was also suggested that improvement was needed in the field of tax administration ^{to} ~~in~~ increase the tax yields from the present system, mainly through more effective auditing.

During the years of plan implementation, several changes were made in the tax system, basically with a view to increase revenue. These measures were taken under pressure and were aimed at covering the immediate budgetary deficits. For example the rates on excise taxes were increased several times.

Thus, the share of indirect taxes within the total rose substantially, despite the opposite policy intentions mentioned in the plans, more than likely contributing to the worsening of the distribution of income.

Attempts to change the tax system in the 1960's were relatively successful only from the revenue raising point of view; measures which might add up to ^{@ tax reform} have yet to be attempted. The criticisms of the present system on grounds that it is not sufficiently elastic, that it does not properly discourage evasion, that large incomes particularly in ~~ag~~riculture are left outside the system, that it discriminates against the wage and salary earners, and that it disregards the incentives in the private sector, continue to be valid.

Reform and Reorganization of the State Economic Enterprises (SEE): The issue concerning the reform and reorganization of the State Economic Enterprises has ideological overtones as well as being vitally important on economic grounds. State-owned enterprises, conceived basically for pragmatic purposes, have played a significant role in Turkey's development since the 1930's, their activities ranging from manufacturing and mining to power, transport, and banking services. In the past their investment, employment and pricing policies have been affected not only by purely economic criteria, but also social considerations such as providing employment, relatively inexpensive goods and services for lower income groups and development of less-developed regions.

Even though these enterprises were given some freedom in 1938 to expand and diversify their activities, they were also subjected to considerable bureaucratic control. After a change of government in 1950, non-economic considerations and political appointment and investments became common practice. In the 1950's, while they grew in size, their profits slowly disappeared. The prices of their products were deliberately held down by the government in the face of rapidly rising general prices. Deficits resulting from both their operating losses and haphazard investments were covered by the Central Bank resources, thus contributing to rapid inflation.

The issues concerning the proper functioning of the SEE became more vital in the 1960's, when the plan implementation began. Here were some 130 SEE, absorbing about 35 percent of the investments made by the public sector, producing nearly half the manufacturing output, and providing major services in the fields of transportation and finance. Moreover, the manufacturing SEE's activities were concentrated in the heavy industries and in the fields that provide basic materials for the economy. Within the framework of the strategy of mixed economy in the FFYP, the public sector was given the task of investing in areas where large capital and know-how was required, thus leading the industrialization process.

All these considerations made the much-needed reorganization of the SEE a matter of urgency, if they were to perform the functions assigned to them. Some legislative changes were made in 1964, giving them more autonomy so that they could concentrate more on efficiency and competitiveness,

and also a State Investment Bank was established with the task of closely scrutinizing of the investment funds to be channeled to the SEE's. In addition, a Reorganization Committee was formed to evaluate each enterprise and to reorganize it. After working continuously for four years the Reorganization Committee submitted its reports to the SPO on most of these enterprises; action has yet to be taken on them.

Meanwhile, the financial status of the SEE has deteriorated during the plan period. The annual programs assigned the SEE the undertaking of large scale investment projects which forced them to borrow heavily from the State Investment Bank and also necessitated large transfers from the government budget. Appointments and promotions according to political criteria, liberal employment policies, continuous government interference in pricing and management, the servicing of accumulated debts, combined with increases in wage payments have all aggravated the problem.

Reform in the Public Administration: The role of an efficient public administration can hardly be over-emphasized in carrying out the development policies. The success of plan implementation depends largely on the proper functioning of the government mechanism. Fortunately, Turkey has had an established bureaucratic mechanism with a long tradition, especially when compared with newly emerging countries.

Nevertheless, it is equally obvious that an established public administration system does not necessarily have the built-in flexibility to cope with a rapidly changing socio-economic milieu. Planned development efforts require a high degree of cooperation, coordination, control,

follow-up and an overall sophistication. The need for the reorganization of the administration and administrative practices in Turkey was recognized even before the FFYP was formulated. Five year plans and annual programs have put a special emphasis on the reorganization issue and several ad hoc committees have studied the case and made reports. As stated in the 1971 Annual Program, studies still continue and serious measures are yet to be taken.

The foregoing analysis reveals that either no action has been taken or the measures fell significantly short of their purpose in areas where some overwhelming changes had to be made. Some effects of this may already be seen, but it would not be wrong to expect that this lack of action will mostly take its toll in the long run.

IV. ECONOMIC POLICIES

The foregoing analysis reveals various aspects of the economic policy formulated and pursued in connection with planning in Turkey. Here only an evaluation of the overall economic policy will be made.

In underdeveloped countries some of the institutions that are important to the proper functioning of a market economy are either non-existent or are in their infancy. This is true for Turkey also, where for instance there is not an organized money or capital market to speak of. This limits the choice in the selection of policy instruments and also lowers their effectiveness. On the other hand, in a mixed economy like Turkey, where planning is only indicative as far as the activities of the private sector is concerned, the effective use of the economic policy instruments which are available becomes all the more crucial.

It is usually agreed that fiscal policy could have been used with more effectiveness in Turkey, since the government commands a relatively large portion of economic resources. The share of the public expenditures has been in the order of 26 percent of the gross national product throughout the plan period. As indicated earlier, taxes collected by the government was 15.5 percent of the gross national product during the same period. With such a relatively high level of public involvement, fiscal policy could be effective in contributing considerably to the long term development objectives. But in Turkey, the short term considerations of maintaining the economic stability have been an overriding concern of the authorities, sometimes at the expense of developmental targets. It has already been pointed out that the tax measures were taken mostly with a view to cover the short term budgetary deficits. The long term developmental impact of the changes in the tax system has received little attention.

It is also true that the government expenditures, and particularly the current expenditures and transfer from the budget, need to be reviewed and their actual impact examined in Turkey. The authorities have already made an attempt to apply the program-budget system in order to increase efficiency, but measures have fallen short of universal application. There seems to be reason for improvement in terms of both quality and quantity of the services provided by the government, given the present level of expenditures. Government expenditures could also be redistributed and scrutinized to better serve the long term development purposes.

In terms of maintaining relative price stability while providing the money demands of a growing output, monetary policy was generally successful. Nevertheless certain aspects of the monetary and credit policies need improvement. For instance, the low interest rate policy maintained by the government seems to have been in conflict with the long term development policies. Low interest rates usually discourage voluntary savings and interferes with the allocation of resources. The adverse effects of such policy have already been discussed in connection with industrialization and employment.

Other aspects of the monetary and credit policies in the plan period have drawn criticism. The increased use of Central Bank credits by the public sector to cover the deficits of the Treasury, the inadequacy of institutions that provide medium term credits for the needs of the industry, the biased distribution of bank credits toward commercial activities at the expense of industry, and the lack of a properly functioning money market and a capital market are the areas where changes are in order.

There has not been any major change in the foreign exchange policy of the government in the plan years until 1970. The government maintained a fixed exchange rate of 9 TL = \$1 from 1958 until 1970, even though the Turkish lire was clearly overvalued, particularly during the latter part of this 12 year period. In order to control the excess demand for foreign exchange, originally high tariffs and quantitative restrictions were employed. In later years the system of deposit requirements were added to these measures to curb the ever growing demand for foreign exchange.

Even though the deposit rates were increased steeply in the last several years, up to 125 percent, in view of the rapidly depleting reserves, the transfers of foreign exchange from the Central Bank were held back up to 12 months, sometimes even longer.

The government resorted to certain measures of a de facto devaluation, by paying premiums to the worker's remittances, tourist purchases and industrial exports. Finally, in August, 1970, the Turkish lire was officially devalued at the rate of 15 TL = 1\$.

Since the adverse effects of the maintenance of a grossly overvalued rate of exchange has already been elaborated on in connection with the industrialization and employment policies, they need not be discussed here. But the combined effects of these policies on the overall functioning of the market mechanism warrants a brief further comment.

Both Turkey's FFYP and SFYP rely heavily on the proper functioning of the market mechanism for an efficient distribution of scarce resources. As far as the professed philosophy behind the Turkish planning is concerned, the government's interference in economic activities has not necessarily been to replace the market with centralized administrative directives but rather to remove the imperfections in the market. The government interference is also expected to promote economic growth through the public sector's participation in capital formation and encouragement of private economic activities, as well as to provide a more egalitarian income distribution.

Some of the economic policies followed by the government, as discussed above, have been in contradiction with the expressed intention of the policy makers in promoting the market mechanism as a resource allocator. Especially the maintenance of low fixed interest rates and an overvalued currency, coupled with unusually high continuous protection afforded to industry, have resulted in inefficient allocation of scarce resources, high unemployment, and internationally uncompetitive, high cost, small scale consumer goods industries dependent on imports for their raw material or semi-manufactured goods.

V. SUMMARY AND CONCLUDING REMARKS

in the foregoing chapters, an evaluation of Turkey's economic development since the beginning of the plan implementation in 1963 and the impact of the planning on this development has been made. In summarizing the outcome of this evaluation, two points should be remembered. First, the time period under study from 1963 to 1970 is a relatively short one. It is always hazardous to measure the impact of planning in such a short period of time, since growth may be affected by external factors and the actual impact of the changes in economic policy and the investments made in accordance with the plan may take a relatively long time. This is all the more relevant in the case of measures attempting to change the socio-economic structure of the society. Second, the state of statistics in Turkey is such that it is difficult even to follow the trends in certain areas. Improvements are in order in the fields of national accounts, labor statistics, price data and the activities of the private sector before detailed analysis with any precision can be made.

The official estimates suggest that the total output in Turkey grew at a relatively higher rate in the plan period compared with the performance of the previous decade, and the average annual rate of growth was not far from the planned growth rate of 7 percent. It would not be unrealistic to assume that planning must have contributed to this development by encouraging the investments in both the public and private sector, and by avoiding serious bottlenecks in various inputs and raw materials. Nevertheless, the change in the structure of production has not followed the pattern envisaged in the development plans. The statistics on national income reveal that the value added in the services sector grew over and beyond the planned rates while agriculture and industry fell short of realizing the targets.

Both plans of Turkey did not attempt to completely solve the unemployment problem, but they aimed at easing the problem through providing jobs at an accelerated rate. However, the demand for labor increased at only about 1 percent annually during the plan years. Given an increasing labor supply of nearly 3 percent annually, both the absolute number of unemployed and the rate of unemployment have increased. Despite an unprecedented increase in the demand for Turkish labor from Western Europe, where currently half a million Turks are presently employed, the rate of unemployment rose to more than 10 percent in 1970 from less than 8 percent in 1965. The plan seems to have made no measurable impact on the employment problem, and the overall economic policies followed during the plan period have actually had a depressing effect on employment.

Another priority target of the plans, namely achieving a state of self-sustained economic growth by the mid-1970's, seems to be far from being realized. Even though the level of domestic savings increased considerably during the plan years, a viable Turkish economy still requires a jump in the marginal saving ratio to approximately 40 percent from the accomplished level of 32 percent. Serious improvements need to be made in the organization of the production with a view to increasing the overall efficiency and a fuller use of existing productive capacity, so that the capital output ratio and, indirectly, the required marginal savings ratio can be lowered. But the shortage of foreign exchange presents an even more formidable problem in reaching self-sustained growth. Export earnings grew at approximately 6 percent annually, mostly due to an increase in the demand for Turkey's three traditional export commodities, but the planned efforts to increase exports of industrial origin have not so far made a tangible impact. And again, despite the unexpected inflow of workers' remittances, which have amounted to more than one third of Turkey's export earnings in 1970, a relatively large current account deficit has persisted. The servicing of a foreign debt of over 2 billion dollars also aggravates the foreign exchange problem.

Another plan objective, that is, to achieve a more just income distribution and to lower the development gap in various regions of the country is difficult to evaluate because of lack of data and studies. Neither the few studies that are available nor recent developments in employment in the tax system indicate any improvement in income distribution and regional balance.

Successful planning requires both the identification of the bottlenecks and the obstacles that prevent achievement of certain developmental goals, and also the formulation of policy measures to remove them. These policies must be consistent and compatible with the targets as well as with each other. Needless to say, the effective implementation of these policies is the most essential part of the planning process. The Turkish plans were basically successful in identifying the major obstacles and the bottlenecks to rapid economic development. But it is not possible to say the same thing for the formulation of economic policies, particularly for the implementation. Measures in connection with fiscal and monetary policies were often taken to correct the short term imbalances without regard for the long-term development objectives. The maintenance of an overvalued currency and low interest rates have adversely affected the resource use. As a result, capital intensive technologies were encouraged at the expense of employment. Encouragement of import substitution was carried to the extreme by granting continuous and complete protection to the small-scale, inefficient industries. Under this type of protection, consumer good industries which depended heavily on the importation of raw material and semi-manufactures flourished whereas the industrialization strategy in the plans called for the expansion of industries that produced intermediate inputs and capital goods. This type of industrialization discourages the increases in domestic savings and increases the dependence on imports, without expanding the export potential of the country.

Given the mixed nature of the economy, Turkish planning relied heavily on the proper functioning of the price mechanism for an efficient resource allocation and aimed at removing the imperfections in the market. However, in implementation, administrative and quantitative controls have been used extensively to undermine the market. Particularly in recent years, these administrative measures were intensified to the extent that the government transferred funds to firms selected by the State Planning Organization.

In evaluating the performance of the Turkish economy under planning and the overall development policies during the plan period, there is another factor to be borne in mind. That is Turkey's decision to join the European Economic Community (EEC), or as it is more commonly known, the Common Market. Turkey was accepted by the EEC as an associate member at the end of 1964. The association agreement called for a five-year "preparation period" during which Turkey was to strengthen her economy and prepare for full membership. In 1970, both Turkey and the EEC agreed that Turkey was ready to enter the second phase, the "transition period," which would last 12 years before full entry, and would require Turkey to gradually remove all restrictions to imports from the six EEC countries within a period of 22 years.

A full partnership of this nature with the six West European countries necessitates extensive adjustments in the organization of production. Otherwise, the whole Turkish economy, and particularly industry, would find

competition from Eastern Europe overwhelming. Even though the Turkish economy could not reasonably have been expected to overcome the problems involved in such an association in a relatively short period of time, the crucial years of this "preparation period" could have been better utilized with the aid of economic planning. Even some of the more obvious reforms in the plan documents, such as tax reform and the reorganization of the State Economic Enterprises, were not attempted during the plan period.

The foregoing evaluation reveals some of the basic weaknesses and failures of economic planning in Turkey. Despite higher rates of increase in output in the plan period as compared with the earlier decades, planning in Turkey fell short of realizing various targets and the socio-economic reforms to facilitate long term economic development. Nevertheless, certain favorable developments did take place during the 1960's, which planning should take credit for.

First of all, planning in Turkey helped economic development become a public issue. In a country which is experimenting with democratic institutions, this is very important. In Turkey, planning has had an undeniable educative influence not only on bureaucrats and politicians, but also on the Turkish people as a whole, in understanding the problems associated with economic development.

Among other favorable effects of planning in Turkey, it should also be emphasized that the resource base of the economy expanded measurably. The level of domestic savings increased both in absolute terms and as a percentage of the gross national product. There was also a significant increase in the government revenues and particularly in tax revenues. Equally

important is the fact that the capacity to invest has improved considerably in both public and private sectors. At the time the FFYP went into operation in 1963, there were hardly any large scale projects at hand ready to be implemented. The absence of well prepared projects slowed down the rates of implementation in the first two or three years. Planning has helped improve not only the project preparation but also the project implementation skills. A number of large scale projects in the fields of infrastructure, manufacturing and mining have been conceived and implemented during the plan period. Even though most of these projects have not yet been completed, it is expected they will have a stimulating effect in furthering the industrialization of the country.

Better coordination has been established among various government agencies since the plan implementation began. The investment programs of budgetary agencies and the State Economic Enterprises have been subjected to close scrutiny and coordination within the State Planning Organization. The State Economic Enterprises' investment projects have been further examined by the State Investment Bank when the enterprises applied for credits for the financing of these projects. Also, strong coordination between the State Planning Organization and the Ministry of Finance, and in some cases the Ministry of Foreign Affairs, has been established in utilizing the external resources and foreign credits.

The existence of a plan has been helpful to the private sector in Turkey not only on account of the implementation of various promotional measures, but also because of the information it has provided in the plans and the annual programs. Entrepreneurs have become more aware of the activities of the public sector in their respective fields as well as the present productive capacity, the overall demand, and other relevant information.

There have also been some favorable developments in the social field. For example, with the FFYP a new population policy was adopted repealing the pronatalist policies hitherto applied. Legislation was passed expanding the social rights of the workers, and providing the right to strike and collective bargaining. Even though the targets in education and health were not fully realized, there has been noticeable improvement in these fields.

An evaluation of the development of the Turkish economy and the influence of planning on this development would not be complete without a discussion of the changes in the socio-economic and political sphere. After all the effectiveness of planning depends more than anything else on the way it is implemented. And effective implementation requires a strong political commitment for economic development and a change in the structure of the society. Thus economic planning can be an effective and powerful instrument if and only if it is in the hands of those who genuinely use it to attain self sustained economic development through a change in the existing socio-economic order.

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The government in Turkey, like any other government, is merely a reflection of the existing power structure. Since planning is a very powerful and potent instrument, those who have the real power -- customarily called

new coalition the military still exercised some power indirectly, but the plan was naturally a compromise.

Turkey had civilian coalition governments until the end of 1965, at which time the Justice Party came to power. It claimed to be a descendant of the Democratic Party whose rule was ended in 1960 by a military revolution after being in power for ten years, and it campaigned on a similar economic policy platform. The power centers who supported the new regime were quite similar to the base on which the old Democratic Party relied, combining businessmen, small town artisans, and landowners. The new coalition was basically conservative with religious overtones, and also enjoyed the support of the Western European countries and particularly the United States. The new coalition made its impact on both the planning process and the plan organization itself. The features of this change have been described above. But it should be emphasized that within this setup it would be unrealistic to expect any changes in the nature of reforms that in effect would produce a change in the power structure.

Turkey certainly is not a stagnant society. There has been an overall increase in the output in the last decades. The industrial labor is growing, there is continuous migration to the cities, and enrollments in different levels of schooling are increasing. Changes of this nature are bound to make their impact on the existing power structure, not probably at a rapid pace but at least gradually. But the reform-minded intelligentsia who have been entirely left out from the ruling coalition, have been impatient with the slow rate of the change. Alternatives to the parliamentary democracy have been increasingly appealing particularly to the students. When legitimate dissent did not meet with an understanding from the ruling power, it turned to violence, and for a while 1960 seemed to be repeating itself in 1971.

In March 1971 the armed forces once again interfered, and forced the Justice Party government to resign. The military, without taking over the government, asked Parliament to form a strong non-partisan cabinet that would stop anarchy and carry out major reforms such as land reform and educational reform. The program of the new government calls for a change in the strategy of economic development, emphasizing the leading role of the government, with less reliance on private initiative and particularly on foreign investments, and also outlines the major reforms to be carried out. The success of this new experiment, needless to say, will depend upon the cooperation of the parliament and the attitude of the armed forces.