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RECENT PROBLEMS OF ECONOMIC DEVELOPMENT IN TURKEY

James A. Morris

THE effort now being made by the Turkish Republic to achieve economic, military, and political parity with Western European nations has far-reaching implications for it and for the Free World. Modern Turkey has been vigorously engaged in improving the living standards of its people for less than forty years but in this short span of time has been successful in orienting itself toward Western methods and in narrowing the gap between its standards and those of the more industrialized nations. The only aspect of this impressive effort being considered here is the economic development effort of the past ten years, but this program must be viewed in the context of the goals and aspirations of Turkey's people and against its resource background.

In the 1920's, after modern Turkey emerged as a nation, the economy was basically in balance at a low level of income, dependent upon mineral and agricultural exports for its necessary supply of manufactured goods. As a raw material exporting nation its position was precarious in the depressed 1930's and Turkey attempted to solve its problems by rapid industrialization under state control. This period of forced industrialization or Etatism, although not especially well planned or executed, provided experience and some

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industrial facilities useful subsequently. During World War II, Turkey was cut off from world trade channels and consequently experienced critical shortages in industrial and consumer goods, although suffering no war damage. After the war, development moved forward slowly under the impetus of favorable markets for raw materials, but the pace of industrial growth was slow.¹

A most ambitious economic development effort has been under way since 1948, supported by increasing amounts of economic aid from the United States and by credits from Western Europe. Every segment of the economy has received attention, including manufacturing, agriculture, power, mining and transportation. The emphasis has been on industrialization with the objective of meeting Western European standards of production and on stimulation of agricultural productivity. The program has been state directed and to a considerable degree publicly implemented, but attention has also been directed toward stimulating private enterprise and private foreign investment. While there can be no question that economic growth has occurred in real terms, development has been accompanied and hindered by serious problems of inflation, foreign exchange imbalances, critical shortages both of producer and consumer goods, and difficulties of all sorts. Lack of effective direction and coordination have led to misallocation and waste of scarce resources, thereby affecting the rate of growth.

A preliminary evaluation of the growth potential of Turkey reveals many favorable factors, including basic self-sufficiency in agricultural production, extensive and high quality deposits of strategic raw materials for industrial purposes, a reasonably comprehensive transportation complex, some basic industrial facilities for production of steel, cement, paper, textiles, and other products, and excellent natural ports. Also significant are the existence of a stable government which is development conscious, a disciplined, hard working labor force, at least the rudiments of a private enterprise system, and favorable laws for foreign investors. Fundamental obstacles to development are shortages of capital because of low levels of income and a low rate of savings, inadequate technical know-how for entrepreneurs and skills for workers, and critical foreign exchange shortages. More subtle yet significant obstacles are the unwillingness to plan realistically, which stems from a determination to catch up with Europe overly quickly in terms of industrial strength, and a rather cumbersome governmental administrative complex which, while voicing support of free enterprise, has extended major resource support to the public sector. On balance, Turkey has the economic essentials, the basic governmental and social framework, and suitable attitudes for sustained, balanced

1. The report of a World Bank Mission, *The Economy of Turkey*, Washington, 1951, provides an excellent summary of economic development in Turkey to 1951.

development at a reasonable pace. Analysis of recent experience will provide a basis for judgment as to whether Turkey's approach to development is designed to realize its maximum potential.

Turkey's pattern of development since 1948 can be explained by no basic thesis such as a drive for self-sufficiency or balanced growth, nor can it be held that any overall plan has been adhered to. Growth has proceeded on all fronts in an un-coordinated manner, stimulated and directed by the compulsion to build factories, to develop transportation and electric generation facilities, and to improve productivity on the farm. This effort has been financed by compulsory savings to some degree but more directly by exhausting gold stocks and foreign exchange reserves, by extending national credit beyond reasonable limits and by utilizing economic aid. With the possible exception of wheat, major dependence has not been placed on growth through systematic expansion of agricultural exports and, in point of fact, internal inflationary pressures have actually retarded the normal expansion of such exports. Social overhead facilities have received considerable attention, in particular the network of all-weather highways, and to some extent railroads as well. In recent years multi-purpose dams have been built and a grid system is now in existence in northwest Anatolia. A more recent project has been the modernization of port facilities and the improvement of natural ports. In the field of industry special emphasis has been placed on the heavy industries, such as coal, steel and cement, but consumer good facilities such as sugar refineries and textile plants have also received attention. A spectacular but not especially productive aspect of the development effort of Turkey has been the program of reconstruction of the major cities, especially Istanbul, with particular emphasis on aesthetic qualities rather than function. The considerable amount of luxury housing built in recent years is also of questionable value from the social and economic standpoints.

According to government data, Gross National Product in terms of 1948 prices increased by 57.7 per cent between 1948 and 1957.² On a per capita basis, considering the average increase in population of almost 3 per cent per year, the increase in real product was about 3 per cent per year, although in point of fact the largest gains were registered during the period 1948 to 1953. Gains in agricultural production have been erratic and uneven, dependent to a large extent on climatic conditions, but the data indicate an increase in real value from 1948 to 1957 of 32.5 per cent. At the same time the industrial sector developed relative to agriculture, with increases of 65.9 per cent in manufacturing, 163.8 per cent in mining and 235.0 per cent in public utility production value in real terms. For the transportation and communications

2. Central Statistical Office, Republic of Turkey, *National Income of Turkey*. Publication No. 382, 1958, p. 17. Data for 1957 are first provisional estimates.

sector the increase in real value of product from 1948 to 1957 was 150.4 per cent, while there was a gain of 40.3 per cent in wholesale and retail trade.³

Development activities have been carried out by many government economic enterprises including Sumerbank in manufacturing, Etibank in mining, and special companies in various productive fields such as cement, sugar, and petroleum. In agriculture, trade, and smaller industries private enterprise dominates, but government control programs of multifarious types govern activity to a significant degree. By its decisions on allocation of domestic raw materials, on granting of import licenses, by subsidies and price supports, and by monetary and fiscal policy the government controls the functioning of the economy. Government enterprises vie for investment funds, import licenses, and raw materials, and decisions in this area have tended to be made in an *ad hoc* fashion rather than by careful and coordinated planning.

In the past few years coordination agencies have been created by the government to include a Bank Credit Regulation Committee, a Foreign Exchange Committee and an Internal Finance Committee, and the Central Bank and the Ministries of Finance, Commerce and State Enterprises exert some influence in this sphere. In the absence of a central economic coordinating agency, however, and with inadequate use of the price and profit mechanism, decisions tend to be made on a day-to-day basis by diverse agencies. Under such a system resources tend to be allocated, at least in part, on the basis of subjective evaluation of national need or political criteria, with the accompanying dangers of misallocation.

In the private sector, the Union of Chambers of Commerce and Industry assists in coordinating requests for foreign exchange and import licenses, submitting recommendations to the government in this connection. Noteworthy development results have also stemmed from the Industrial Development Bank, a private institution set up with assistance of the World Bank, although foreign exchange resources available for investment have been very limited.⁴ Liberalization of laws regulating foreign investment in Turkey for both industry and mining have also been passed in recent years which will promote such investment further when economic conditions and market potential provide sufficient incentives. Some foreign concerns have established branches in Turkey since passage of the basic law in 1954, but economic instability and raw material shortages have seriously discouraged expansion of such investment.

Techniques used to stimulate agricultural production have included expansion of cultivated land, supplying of machinery under liberal credit terms, increased extension work, public construction of irrigation systems, seed improvement, and subsidies and price supports. State farms have performed

3. *Ibid.*

4. Between 1950 and 1958, the total value of credit distributed by the IDB amounted to TL 256 million. *Turkiye Is Bankasi, Monthly Review of Economic Conditions*, March-April, 1959.

notable research work and have also produced substantial crops, while other research activities have been carried out by the Sugar Company and the Ministry of Agriculture. At the same time, progress in mechanization has been impeded by the problem of servicing equipment, especially tractors, and also because of shortages of fuels. Productivity could also have been stimulated by providing simple metal equipment such as plows which could have been more easily adopted by farmers, are easier to maintain, and are a vast improvement over existing tools, especially when the low level of labor costs is considered. Nonetheless, production of major crops increased significantly between 1948 and 1958: cereal production by 67 per cent, cotton by 204 per cent, sugar beets by 222 per cent and tobacco by 25 per cent.⁵ These production increases illustrate rather general increases in agricultural output and have been reflected to some degree in an increase in the value of exports, especially for tobacco, fruit and, more unevenly, for cotton. At the same time, the projected program of wheat exports, for which an extensive network of storage facilities has been built, has not materialized. Because of limited irrigation systems in operation, extremely short supplies of fertilizer and the vagaries of the weather it would be unwise to depend on wheat as a reliable major export crop in the foreseeable future. Increasing domestic needs for such crops as cotton and sugar beets and inflationary prices have also been factors restricting exports of cash crops. Some effort has been expended in developing the fishing and forest products industries but the potential in these areas, which could result in exports or reduction of imports, is still basically untouched.

Perhaps the most significant of the social overhead investment projects has been development of transportation facilities to include the construction of a national highway network, the improvement and extension of railway lines to create a unified system, the creation of an airways system, and the modernization of port facilities. This program, supported by technical and capital aid from the United States, has stimulated agricultural and mining production and distribution and has contributed toward the creation of a mass domestic market. Such a development, to include further expansion and effective maintenance, is a necessary prerequisite for the build-up of an industrial society. Indicative of this expansion has been an increase in gross ton/kilometers of railway freight traffic between 1948 and 1958 of 87 per cent and an increase in ton/kilometers carried by motor trucks of almost six-fold.⁶ An ambitious program of construction of thermo and hydro-electric power plants has also been initiated by government agencies. Installed capacity almost doubled between 1948 and 1954, and substantial expansions followed. In

5. Central Statistical Office, Republic of Turkey, *Monthly Bulletin of Statistics*, No. 64, June, 1959.

6. *Turkiye Is Bankasi, Review of Economic Conditions*, July-August, 1959, Ankara.

1956 alone nine plants were added with an initial capacity of 115,000 KW and more plants have been built since. As a result, generation of electricity expanded almost four-fold between 1948 and 1958.⁷ With the recent completion of a grid system in the major industrial area of Turkey another stimulus has been given to manufacturing. The power program has been criticized on the grounds that some projects have been built in areas where demand is quite inadequate to utilize capacity and that resources have been tied up which could have been used more profitably elsewhere. On the other hand a well-planned program of building over-capacity in social overhead facilities can be defended on the basis of unavoidable indivisibilities and on the basis of anticipated demand stimulated by the existence of dependable and inexpensive power. It is doubtful in the Turkish case whether power facilities in general have been built too far ahead of demand, and irrigation and flood control uses also must be considered.⁸

Development of mineral resources on a systematic basis has been handicapped by lack of knowledge of resources, although production of known minerals has increased significantly. Production and exports of some minerals rose substantially between 1948 and 1958 while the overall minerals production index more than doubled in this period. Especially impressive were a six-fold increase in iron ore production, a more than three-fold rise in chrome production and expansions in production of coal, copper, manganese, and sulphur.⁹ Between 1948 and 1958 the value of mineral exports increased from 31 million Turkish Lira to 90 million Turkish Lira at the same time that domestic processing of minerals for home consumption was expanding.¹⁰

In manufacturing, emphasis has been placed on expanding production of imported producers' goods like steel and cement, as well as on the consumer good industries such as textiles, sugar-refining and meat-packing. Between 1948 and 1958 iron and steel production doubled, cement production registered more than a four-fold increase, and production of sugar and paper expanded three-fold.¹¹

Five modern meat-packing plants were also built during this period, many new textile plants were constructed, and a nitrogen fixation plant was initiated, as well as other plants in diverse industries, both private and public. Impressive as the record is, a number of questions arise as to whether greater growth could have materialized with the same expenditure of resources by using different methods. A significantly large proportion of the new facilities has

7. Central Statistical Office, *Bulletin 64*, p. 9.

8. Professor Ragnar Nurkse stressed the desirability of the building ahead of social overhead facilities to stimulate private industrial investment in a lecture at the University of Ankara, June 14, 1957.

9. Central Statistical Office, *Bulletin 64*, p. 10.

10. *Ibid.*, p. 95.

11. *Ibid.*, p. 11.

been built by public enterprises, with resources diverted from the private sector for this purpose. Because of this diversion, over-extension of credit to build facilities, and general economic instability, industrial production in many lines has been impeded by shortages of raw materials and spare parts. Also balanced consideration has not always been given to locational planning or to comparative costing when industrial plants have been placed on the basis of a need for development or other considerations. In addition, while ostensibly many facilities, such as plants for sugar refining and cement production, have been established to reduce imports or to increase exports, domestic consumption has increased to the degree that only limited foreign exchange benefits have accrued. Some industrial facilities, such as meat-packing plants, have been built well before adequate raw material supplies have been available. While efforts have been made to rectify the situation, some degree of misallocation of resources has been involved because of this. Most significant, however, has been the method of financing which has had sufficient impact on the economy to retard development to some degree.

Despite the positive encouragement of investment by private foreign companies provided by several laws passed since 1954, which among other things provide for unlimited transfer of profits and capital, relatively few foreign companies have invested funds in Turkey. Between 1951 and 1958, foreign investments in Turkey totaled TL 56,534,982, most of which came from American, Dutch, German, English and French investors.¹² Relative to either potential or needs, this is a modest amount. Thus the full effect of an invigorating transfer of technical know-how and capital has been lacking in industrial development. This reluctance to invest is basically explained by economic instability and an unduly cumbersome administrative framework for effectuating investment. Some foreign companies have initiated operations in Turkey, and some have had disappointing results because of marketing problems, but more especially because of difficulties in obtaining adequate supplies of raw materials and spare parts. Even firms producing essential items have experienced costly shut-down periods because of inadequate allocations of foreign exchange for raw materials. The potential in this area is great but will likely await greater economic stability and market expansion.

Several aspects of this record are significant in evaluation of the effectiveness of the development effort: (1) expansion of Gross National Product was rapid to 1953 and then slowed down; (2) agricultural production gains more than kept pace with population increases because of an expansion of cultivated land and technological improvements; (3) social overhead facilities to include transportation and public utilities scored impressive gains while

12. Union of Chambers of Commerce, Industry and Commodity Exchanges, *Foreign Capital Investments in Turkey*, 1959.

manufacturing production showed a more gradual increase; (4) trade gains were well below those in most other areas, underscoring the increased government activity and the limited increases in consumption goods available for distribution; (5) the increase in the investment rate resulted from forced savings and credits or aid from abroad.

These substantial real gains in production and income have been accompanied and affected by economic instability generated by lack of a coordinated development plan and by the pressures of excess demand. It can be expected that demand pressures will accompany relatively high rates of investment in underdeveloped countries with a low private propensity to save, but for maximum development results it is essential that inflationary pressures be controlled.

It may logically be argued that some degree of inflation may actually accelerate the pace of development and the level of employment by creating forced savings and providing incentives to private investment. The difficulties in Turkey were that excessive inflationary tendencies developed and that many barriers restricted the growth of private investment. In addition, the efficiency with which investment funds were allocated and resources were combined also played a significant role in dictating the extent to which inflationary disorders handicapped the development effort. In this case, the various tests of performance indicate a degree of inflation sufficient to interfere with orderly economic progress.

Wholesale price data published by government agencies registered an increase of only seven per cent to 1953 (1948 = 100) but the index climbed to an average of 148 in 1956 and by December of 1958 the index had reached 231.¹³ Official indexes of retail prices in Istanbul and Ankara followed a similar pattern and showed an increase of about 125 per cent between 1948 and December 1958, with most of the rise occurring in the last four years of the period. These inflationary tendencies were reflected in the free foreign exchange market by a decreasing value of the Turkish Lira with an official exchange rate of TL 2.80 = \$1. The market rate moved from TL 4.55 = \$1 in 1948 to TL 5.62 = \$1 in 1953, and except for brief periods, declined continuously to TL 15.00 = \$1 in April 1958.¹⁴ During this active development period the supply of money and credit rose considerably faster than increases in production, adding fuel to the inflationary fires. The total money supply increased by 98 per cent from 1948 to the end of 1953 and by a further 106 per cent by November 1957. For the whole period 1948 to 1958 Central Bank credit multiplied more than five-fold while other bank credit rose about eight-

13. Central Statistical Office, *Bulletin 64*, pp. 30-35.

14. U. S. Operations Mission to Turkey, *Turkish Economic Statistics*, 1958, pp. 15-16. The *Wall Street Journal*, November 25, 1959, records a value for the Turkish Lira of \$.0725 in New York.

fold.¹⁵ Since 1953 the government budget has been unbalanced, even if American counterpart aid is considered, and the size of the budget almost doubled in this period, with investment expenditures increasing percentage-wise. Significant increases in both internal and external debt resulted from the development effort and the method used to finance it during the period under study.

Examination of foreign trade activity and the balance of payment reveals trends in resource availability and the extent to which the development effort affected and was affected by external trade. Expressed in current currency values at the official exchange rate, exports and imports were approximately doubled in the period 1948 to 1953 while the deficit in the balance of trade increased from \$78 million to \$137 million. From 1953 to 1958, however, exports in current Lira terms declined by about 38 per cent and imports fell by over 48 per cent. The deficit in the balance of trade declined from \$137 million in 1953 to \$68 million in 1958, expressed in these same terms.¹⁶

While no single factor adequately explains these changes in trade patterns, a vicious circle effect of inflationary pressures on the development effort is apparent. Despite a program of export subsidies, it became more difficult to sell Turkish products in international markets because of a disparity between internal and external prices and uncertainties as to the possibility of readjustment of official exchange rates. At the same time a reduction in exports and increased reluctance by foreign suppliers to extend further credits to Turkey forced a downward scaling of imports. Shortages of critically needed raw materials and spare parts impeded production and thereby retarded the export program further. The natural stimulus to domestic industry producing import substitutes was nullified by shortages of critical materials and parts. Other factors are in the picture but this process, not uncommon in developing countries, has seriously affected the economy of Turkey.

To a considerable extent, American economic aid and foreign credits have been the major offsetting factors in the Balance of Payments. Paid shipments of United States aid increased from \$30.8 million in 1953 to \$91.2 million in 1957, while programmed economic aid of all types, to include Public Law 480 surplus commodities, rose from \$57.5 million to \$175.5 million during the same period.¹⁷ During the past few years the character of economic aid has altered to consist primarily of raw materials, spare parts, operating supplies, and surplus commodities rather than capital goods. As a result it might be said that American aid has been utilized to support the current functioning of the economy and to restrain inflationary pressures. A closer look, however,

15. Central Statistical Office, *Bulletin 64*, pp. 16-19.

16. *Ibid.*, p. 85.

17. U. S. Operations Mission to Turkey, *Turkish Economic Statistics*, pp. 23-25.

would reveal that to the extent that such pressures were relieved for the Turks, they found it possible to utilize whatever resources they could find or borrow to expand investment.

Investment expenditures in both the private and public sectors have increased substantially in Turkey in absolute terms and relative to the total quantity of resources available. Gross national investment expanded by 257 per cent in current Lira terms from 1948 to 1955 while total available resources rose during the same period by 105 per cent.¹⁸ During the period 1953 to 1956, gross private investment increased by 59 per cent while gross public investment rose by 77 per cent.¹⁹ Planned investment expenditures for development purposes in the 1958 Turkish Budget were proposed at 1,536 million Lira as compared with 279 million Lira for this purpose in 1950, representing a rise from 18 per cent to 33 per cent of the budget.²⁰ The great bulk of the public investment expenditures were directed toward the agricultural, transportation and communications sectors. For the period 1953 through 1957 various sectors received the following percentages of government investment funds:²¹

Industry, mining and electric power	6.7
Agriculture	28.2
Transportation and Communications	52.4
Public Works	12.7

Gross national investment rose from 8.4 per cent of Gross Domestic Product in 1948 to 14.9 per cent in 1955, both in current Lira terms.²² At the same time personal and government consumption increased absolutely but these shares of national product declined somewhat. Reliable data on savings are unavailable but one confidential source estimated that voluntary personal savings amounted to 1.2 billion Turkish Lira in 1955 against investments of almost 3.2 billion of Turkish Lira.

To recapitulate, this impressive investment effort has been financed by the creation of internal and external debt, through foreign aid, through the exhausting of foreign exchange and gold reserves, and to some extent through forced savings. Official data indicate that total domestic and foreign debts which operated through the budget increased only slightly from 1950 to 1955 while the debt, operating through annexed budgets and state economic enter-

18. *Ibid.*, p. 5.

19. United Nations, Department of Economic and Social Affairs, *Economic Developments in the Middle East, 1956-1957*, p. 99.

20. Finance Minister, Republic of Turkey, *Budget Speech to Grand National Assembly Budget Committee*, March 1957. 1958 figures from *Turkiye Is Bankasi, Review of Economic Conditions*, November-December, 1958. Proposed investment expenditures in the 1959 budget were 2011 million Lira, or 32.19 per cent of the budget.

21. United Nations, *op. cit.*

22. U. S. Operations Mission to Turkey, *Turkish Economic Statistics*, p. 5.

prises, rose from 716.8 million to 1,574.3 million of Turkish Lira, or by 120 per cent from 1950 to 1956.²³ These data significantly understate the extent of expansionary financing, however, since the substantial debt of the Office of Soil Products, which directs the farm subsidy program, is not included and because large sums have been obtained from state pension and amortization funds which presumably are not included in the government figures. The development program to a considerable degree explains the fact that the budget has been unbalanced for several years. Some indication of the degree to which heavy investment expenditures and these methods of financing them have caused inflationary pressure is shown by the rise in the index of total utilized resources in current prices of 43 per cent from 1953 to 1956 while the index of total available resources in constant prices rose by 10 per cent.²⁴

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Looking at the period from 1948 through 1958 in retrospect, a number of facets of the Turkish economic development program stand out as being significant. This was a vigorous and ambitious effort to lift the economy from its comparatively static condition of inadequate income to a higher level of activity characterized by rising standards of living, a greater degree of industrial self-sufficiency, and general economic viability. Stressing social overhead facilities, expansion in agricultural production, and increased output of necessary producer goods, substantial gains in income and productivity have resulted.

Overwhelming pressures were placed on available resources, however, through an overly ambitious volume of investment outlays coupled with substantial increases in both public and personal consumption expenditures. At the same time a substantial volume of defense expenditures was maintained. With a rate of savings quite inadequate to sustain the investment program, the development effort was fed by borrowing and by inflationary credit expansion. The import needs for investment purposes were provided by external borrowing, supplier credits, economic aid, and by exports, which increased until 1954. Inflationary pressures developed rapidly after 1953, creating a further imbalance between external and internal prices, which made exportable products, many of which were already not competitively priced, difficult to move. At the same time foreign exchange and gold reserves were exhausted and it became difficult to obtain new foreign credits or loans because of Turkey's extended position and economic instability. As a result, it was necessary to cut back on imports of consumer goods if the inward flow of investment goods was to be continued, which tended to extend the pressures of excess demand. Raw material and spare parts imports were also restricted, which created serious shortages and bottlenecks in the production system, and further

23. Finance Minister, *op. cit.*

24. United Nations, *op. cit.*

fed the fires of inflation. Some attempt was made to end this vicious circle of economic disorder by a partial stabilization program in 1956. In the absence of a planned and systematic effort to cut back on the major source of inflation, an unrealistically ambitious investment effort without adequate control of consumption, the incomplete stabilization program achieved only temporary and limited success.

The overall picture which emerges, therefore, is one of an uncoordinated but determined and aggressive economic development effort which, because it was unplanned and over ambitious, created difficulties which caused growth at a slower than possible rate. Many tangible gains were made and valuable lessons were learned about the process of development. Social overhead facilities have been built, agriculture has been stirred from its time-worn methods, and managerial experience in industry, mining and transportation has been provided. The heavy burden of debt must be worked off, inflationary pressures must be controlled, and an effective coordinating mechanism created before the economy can move forward again at a sustainable pace.²⁵

In a broader context, the recent economic history of Turkey provides a valuable case-study in the process of economic development. The essentiality of viewing economic growth as a continuous process, which feeds upon itself, and not as a venture which has a precise beginning and ending is reinforced.²⁶ Goals and objectives must be articulated in specific terms over a longer-run period, with particular projects fitting into the program, but with continual reassessment and adequate flexibility. It follows that some sort of coordinating organization is an absolute imperative, whether development is carried on primarily by public or private enterprise, for the scarcity of resources during an active investment period is similar to that experienced by nations during a war, and resources must be rationed to attain economically sound and socially desirable objectives. In the same sense, the Turkish case tends to reaffirm the desirability of utilizing the price mechanism in the allocation of resources between the public and private sectors and within the structure of state economic enterprises. Appropriate priorities for resource allocation are essential, consumption requirements must be controlled, and available fiscal and monetary measures utilized if development with reasonable stability is to be achieved.

If sound concepts of growth are to be followed and the economic experiences of others are to be exploited in promoting economic expansion in under-

25. A broad stabilization program was adopted by the Government of Turkey in August, 1958 to arrest inflationary pressures, to improve its balance of payment position and to prepare for further development. The International Monetary Fund, OEEC, EPU, and the United States Government are cooperating in this effort.

26. This view had not been accepted by official circles in Turkey, except perhaps more recently. In his 1957 message to the GNA Budget Committee the Finance Minister stated: "Once our development is completed—and it shall be in the near future—these temporary difficulties (Balance of Payments deficits, commodity shortages, speculative price increases) will automatically be eradicated."

developed countries, the question is not whether planning and control systems should be created but rather what kind of plans should be made and how they should be applied. In countries with low rates of saving, development expenditures in long payoff, social overhead and heavy industry projects inexorably create pressures of excess demand which must be controlled if economic chaos and retardation of growth are to be avoided. Whether balanced growth of all sectors be the avowed development goal or not, it is essential that balance be a major factor in planning if scarce resources are not to be wasted or misallocated. A factory, *per se*, is not useful unless it can produce, and production requires raw materials and spare parts in being, and not in the distant future.

The proper relationship in growth between the public and private sectors is difficult to attain whatever the state of development, but, in any event, if growth is to be sustained private enterprise which promotes overall objectives should not be repressed by being denied necessary resources. In industrial sectors, for example, where private enterprise is making headway, it is more appropriate to allocate essential raw materials and spare parts to existing firms than to construct new publicly operated plants and then allocate raw materials to them. Public enterprises often tend to build without adequate consideration to comparative costing, to select locations without adequate consideration to economic factors, and to build expensive welfare facilities. In any event, it seems more appropriate for public resources to be applied in longer-run projects which might be unattractive for private concerns. In essence, every incentive should be provided for private initiative to display its wares, providing socially useful objectives are served.

In the agricultural sector, it is questionable whether extensive mechanization with equipment using fuels which require foreign exchange should be an objective in the face of disguised unemployment and low labor costs on the farm. A stronger case can be made for using indigenous facilities to produce simple metal implements which, when combined with extension-type training activities, can be extremely effective in raising agricultural productivity. At a later stage of development, with farmers oriented in the use of more modern methods, and perhaps with greater availability of foreign exchange, an extensive mechanization program might pay rich dividends.

The Turkish development story provides some insight into the "Theory of the Big Push" or the concept of some minimum amount of investment which sets the economy on the development path in a self-sustaining manner by stimulating further investment.²⁷ There is considerable question whether Turkey's rate of growth has been substantial and consistent enough to gather

27. Nurkse, *op. cit.* See also Department of State, *The Mutual Security Program, Fiscal Year 1958, A Summary Presentation*, June, 1957, p. 54.

enough momentum to move ahead on its own. Impressive advances have been made in creating a complex of social overhead facilities and capacity in heavy industry, but the private and foreign investment which could be expected to follow have been inhibited by economic instability and plagued by material shortages and the lack of foreign exchange. It is likely, however, that if the economic milieu is improved, the capital facilities in being will help provide the lift needed to stimulate further investment in the direction of self sustained growth.

The experience of Turkey in the past ten years provides valuable lessons to guide future economic development not only for that country but for others striving to maximize their potentials. If these lessons are properly applied, in the context of Turkey's extensive physical and personnel resources and the will and aggressiveness so essential to development, there is little doubt that the future growth prospects for this nation will be promising.