

# Economic Development and Institutional Change, 1950–1980

## Economic Growth

The decades after World War II were a period of unprecedented growth and prosperity for the world economy. In part because of the new international economic order designed at Bretton Woods, the world economy achieved the most powerful wave of growth and income increase in its history from the end of the World War II until the oil crisis in 1973. In the developed countries, GDP increased at rates higher than 4.5 percent and increases in per capita GDP exceeded 3 percent per annum during this period. Another important development with long-lasting significance was the rapid recovery of Japan which established itself as a world economic power by the 1970s. The socialist economies of the Soviet Union and Eastern Europe also experienced high rates of growth until the 1970s (table 10.1 and Crafts 1996, pp. 429–47; Eichen-green 2008, pp. 91–133).

In part thanks to the Bretton Woods order, most developing economies also adopted government interventionism during these decades. Inward-looking policies and more specifically import-substituting industrialization became the most frequently adopted strategy for economic development especially in the medium-sized and larger developing countries (Kemp 1993, pp. 198–236; Hirschman 1968, pp. 1–26). These policies were not in conflict with the international monetary and trade arrangements of the Bretton Woods era and the Keynesian policies pursued in the developed economies. Rates of growth in the developing countries were also exceptionally high during the post-World War II decades. As urbanization and industrialization spread, average rates of GDP growth in the developing countries as a whole rose to about 5.5 percent annually during these decades, but due to the higher rates of population growth, per capita GDP increased at close to 3 percent annually, which was quite similar to the rates in developed countries. The socialist econ-

TABLE 10.1. GDP per Capita in the World and in Turkey, 1950–1980

	GDP per Capita		Annual Rate of Increase (percent)
	1950	1980	
Western Europe	4570	13150	3.6
United States	9550	18600	2.2
Japan	1920	13400	6.7
Developed Countries	5550	14900	3.4
Eastern Europe, excl. Soviet Union	2100	5800	3.4
Italy	3500	13150	4.5
Spain	2200	9200	4.9
China	480	1050	2.8
India	620	940	1.4
South Korea	850	4100	5.4
Asia excl. Japan	640	1500	2.9
Africa	890	1500	1.8
Egypt	1050	2100	2.3
Iran	1720	4000	2.9
South America	2500	5450	2.6
Developing Countries	850	1920	2.7
<b>World</b>	<b>2100</b>	<b>4500</b>	<b>2.6</b>
<b>Turkey</b>	<b>1600</b>	<b>4750</b>	<b>3.1</b>

Sources: Maddison 2007, pp. 375–86, Bolt and Van Zanden 2014, pp. 627–51 and Pamuk 2006 for Turkey.

Note: GDP per capita are given in purchasing power parity (PPP) adjusted 1990 US dollars. For details, see chapter 2.

omies of Eastern Europe, too, expanded at a rate of more than 3 percent per year. In Japan and in some of the other economies in East Asia, the annual rate of economic growth exceeded 5 percent. The growth rates in China and India, by contrast, remained low. South American countries, which had expanded faster than the average for developing countries between 1870 and 1950, also remained below average (table 10.1 and figure 10.1).

The Bretton Woods system, which had facilitated the post–World War II expansion, came under considerable pressure in the 1970s. After the link between the dollar and gold was severed in 1971, the developed economies began to move gradually toward floating rates. The already vulnerable international monetary and trading system received another major shock with the OPEC-led increase in oil prices in 1973. Governments of the industrialized countries chose to respond by contracting domestic demand. Rates of inflation rose and economic stagnation spread. The global recession that followed brought about not only the end of a long period of expansion of the world economy

but also the end of Keynesian-style macroeconomic management and welfare state policies in the developed countries and a shift toward policies that placed greater reliance on markets. With the end of the fixed exchange-rate regimes and Keynesian economic policies in the developed economies, the inward-looking industrialization strategy became more difficult to sustain in the developing countries. In the aftermath of the oil price increases, the large trade surpluses of the oil exporting countries created new liquidity and lower interest rates in the international markets. Rather than slow down their economies in response to the increase in oil prices, many developing countries attempted to take advantage of the new liquidity and borrowed large amounts in order to extend the ISI-related boom.

The decades after World War II were a period of rapid growth for Turkey as well. Despite the crises in the mid-1950s and in the second half of the 1970s, GDP per capita increased at an average annual rate above 3 percent and more than doubled during the period 1950–1980. These rates of growth were unprecedented for Turkey. During the nineteenth century and in the first half of the twentieth century, the long-term rate of growth of GDP per capita had remained below 1 percent per year. The only exception was in the aftermath of the Great Depression, when GDP per capita had increased at annual rates above 3 percent thanks to high levels of protection and the beginnings of industrialization. The long-term rates of growth achieved in Turkey after World War II were roughly comparable to the averages for both the developed countries and developing countries as a whole. As a result, the per capita GDP gap between Turkey and the developed countries remained little changed during this period. Table 10.1 and figure 10.1 also show that Turkey's rates of economic growth stayed well below those of the more successful countries such as Italy and Spain in southern Europe, and Japan, Korea, and Taiwan in East Asia during these decades.

Two very different economic strategies were pursued in Turkey during the decades after World War II. Agriculture was the main source of economic growth until the early 1960s. As summarized in table 9.1 in chapter 9, agricultural value added increased by 4.5 percent and GDP per capita increased by 3.0 percent per year during 1950 to 1962. Most of the increase in agricultural output was due to the expansion of agricultural land. After a shift in economic strategy, manufacturing industry, and more generally the urban economy, became the source of growth in the next two decades. Annual rates of growth of manufacturing industry averaged 9 percent and the urban economy expanded at rates above 8 percent annually during 1963 to 1979. Increases in GDP per capita and rising tax revenue enabled the government to undertake infrastructure investments in transportation, utilities, irrigation, as well as health and education. Rising incomes and standards of living in both the urban and rural areas can be followed in many series, including urban wages and the spread of

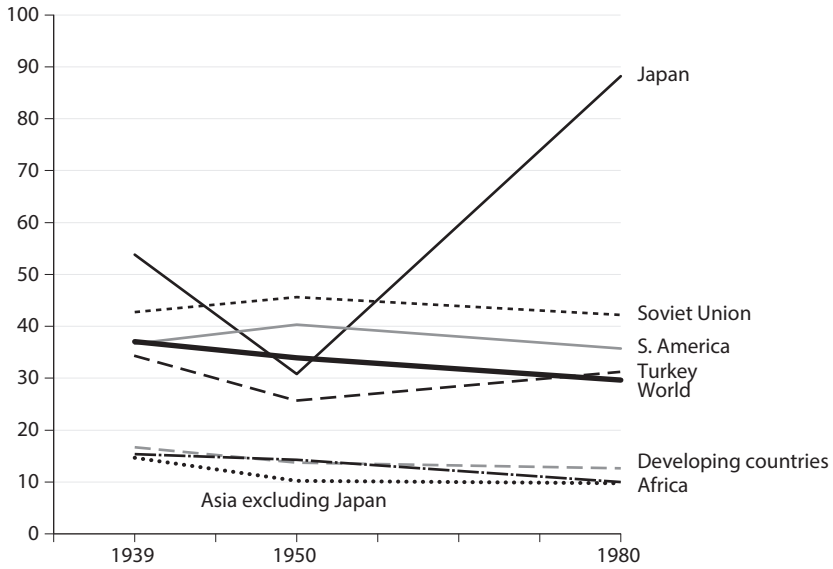


FIGURE 10.1. GDP per Capita in the World and in Turkey, 1950–1980 (PPP adjusted and as percentage of Western Europe and the United States). Sources: Maddison 2007, pp. 375–86, Bolt and Van Zanden 2014, pp. 627–51 and Pamuk 2006 for Turkey.

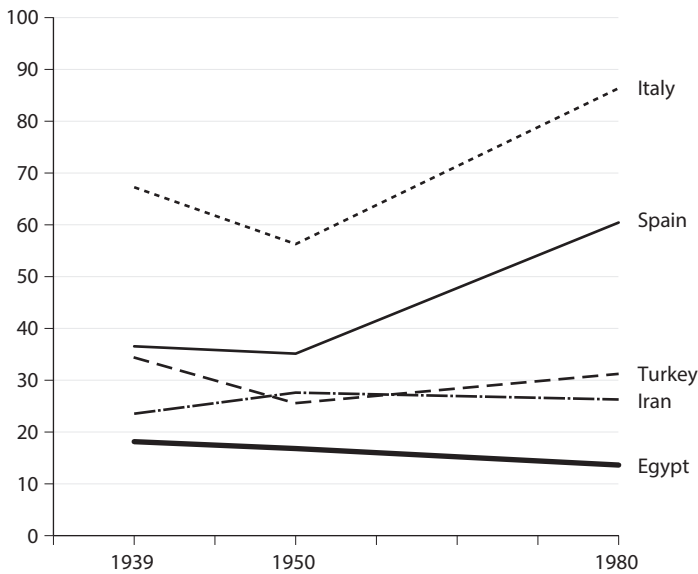


FIGURE 10.2. GDP per Capita in Four Other Countries and Turkey, 1950–1980 (PPP adjusted and as percentage of Western Europe and the United States). Sources: Maddison 2007, pp. 375–86, Bolt and Van Zanden 2014, pp. 627–51 and Pamuk 2006 for Turkey.

consumer durables in households, both urban and rural (figures 9.3 and 9.4 in chapter 9). Agricultural producers also benefited from rising GDP per capita as price support programs and other government subsidies kept them integrated with the growing domestic market. Yet, both land and labor productivity in agriculture increased rather slowly. Turkey lagged well behind southern European countries in land and especially labor productivity in agriculture during these decades.

Comparisons with four countries with similar population, two in southern Europe and two in the Middle East, should provide additional insights into Turkey's trajectory during this period. Italy and Spain also experienced very high rates of urbanization and economic growth and were able to converge significantly to the level of the developed countries in the decades after World War II. For Italy, European integration contributed strongly to convergence. Turkey's economic growth and convergence to the developed countries were weaker than those of Italy and Spain. Egypt also experienced rapid urbanization and inward-oriented industrialization during the decades after World War II. In comparison to Turkey, however, GDP per capita levels in Egypt increased at lower rates. As a result, the GDP per capita gap with Turkey continued to widen and Egypt was not able to reduce any of the GDP per capita gap with the developed countries. GDP per capita levels in Iran increased at rates higher than those of the developed countries and of Turkey until 1980 thanks to a large and growing volume of oil exports. Iran's GDP per capita remained above that of Turkey from the end of World War II until 1980 (figure 10. 2).

The leading proximate cause of the productivity and income increases during this period was the rise in the aggregate investment rate from 11 percent of GDP in 1950–52 to 22 percent of GDP in 1977–79 (table 10.2). Increasing incomes allowed for the rise in the savings rate, and most of the investments in physical capital as well as education were financed by domestic savings. Remittances sent by workers in Western Europe also contributed to domestic savings, especially during the 1970s. In contrast, the contribution of international borrowing and foreign direct investment to capital formation remained limited. Most new technology was obtained through patent and licensing agreements.

Another important cause of the large jump in the long-term growth rate after World War II was the rapid urbanization process. As the share of population in urban centers with ten thousand residents increased from less than 20 percent in 1950 to 44 percent in 1980, the labor force shifted from the agricultural sector, where they worked with lower average productivity, to the industrial sector, and more generally the urban economy, where they worked with higher levels of physical capital and were more productive. Thanks to this shift

TABLE 10.2. Basic Economic and Social Indicators for Turkey, 1950–1980

	1950	1980
Population (millions)	20.8	44.7
Urbanization Rate (%)		
Centers above 10,000 / Total Population	18	44
Life Expectancy at Birth (years)	44 (M: 42; W: 46)	59 (M: 57; W: 61)
Literacy Rate (%)	33 (M: 46; W: 19)	68 (M: 80; W: 55)
Average Years of Schooling		
of Adult Population over age 15	1.2	4.2
Share of Agriculture in Labor Force (%)	75–80?	50
Share of Agriculture in GDP (%)	42	25
Share of Manufacturing Industry in GDP (%)	13	17
Exports / GDP (%)	8	4
Imports / GDP (%)	9	11
Investment / GDP (%)	11	22
Revenues of Central Government / GDP (%)	15	13

Source: Turkey, Türkiye İstatistik Kurumu (Turkish Statistical Institute), 2014.

of the labor force, GDP per capita for Turkey as a whole grew faster than per capita productivity in both agriculture and the non-agricultural sector. Calculations show that more than a third of the total increases in labor productivity and per capita income achieved in Turkey during the period 1950–1980 were due to the shift of labor from the low-productivity agricultural sector to the more productive urban economy. The continuing rural to urban migration would make it easier for higher rates of growth to be sustained in later decades as well (Saygılı, Cihan, and Yurtoğlu 2005; Ismihan and Kıvılcım 2006, pp. 74–86; Altuğ, Filiztekin, and Pamuk 2008, pp. 393–430).

Another potential cause for the increases in productivity in both agriculture and the urban economy was the more efficient use of the existing resources including labor and capital, in other words, achieving increases in total factor productivity. As was the case in most developing countries during this period, however, total factor productivity increases in Turkey remained well below 1 percent per year during these decades. Moreover, most of these increases were caused by the shift of labor from the low-productivity agriculture to the higher-productivity urban sector. In other words, with the exception of the shift of labor from agriculture to the urban sector, most of the total and per capita increases in production were obtained not through increases in total productivity but through increases in total inputs. For this reason, it would not be wrong to characterize the production increases obtained in Turkey, as in the majority of developing countries during this period, as extensive growth.

One important reason for the low rates of increase in total productivity was the low levels of education and skills of the labor force. In fact, Turkey lagged behind not only the developed countries, but also the developing countries with similar levels of per capita income, making it also more difficult to move up to the production of goods with higher technology content and more generally to higher technology sectors with higher value added. The low levels and low rates of increase in total factor productivity were also due to the poor quality of institutions, which I will discuss later in this chapter.

### Income Distribution

Institutional changes at both the global and national levels played important roles in the evolution of the distribution of income during the decades after World War II. The rules of the global economy decided at Bretton Woods in 1944 shaped the possibilities open to the developing countries during the following decades. Domestically, the institutional changes associated with agriculture-based growth during the 1950s followed by the strategy of import-substitution industrialization at a time of rapid urbanization shaped the changes in the distribution of income until 1980. Particularly important were changes in the political and economic institutions that gave greater voice to the agricultural producers and urban workers which raised their share of the national income.

Quantitative evidence about the distribution of income and its evolution during these three decades is limited, but it is possible to follow the general direction of the changes on the basis of some key indicators. I will examine the distribution of income at the national level in three stages: first, the distribution within the agricultural sector; then, the inequalities between agriculture and the non-agricultural sector or the urban economy; and finally, the distribution within the urban economy. The share of agriculture was declining and share of the urban economy was rising rapidly during these three decades. At the beginning of the period more than 80 percent of the population lived in rural areas and a similar proportion of the labor force engaged in agriculture. By 1980, the share of the rural population in total population had declined to 56 percent and the share of the labor force in agriculture had declined to about 50 percent. Similarly, share of agriculture in GDP declined from about 50 percent in 1950 to 25 percent by 1980. In other words, while the distribution within agriculture dominated the distribution of income at the national level during the earlier period, the disparities between agriculture and the urban economy and the distribution within the urban economy mattered more with each passing decade.

Regarding the distribution of income within the agricultural sector, evidence is limited on the key indicator, namely, the distribution of land owner-

ship and land use during this period. The available data suggest that despite the considerable opening up to the markets and all the technological advances, the distribution of land ownership did not change very much. It is clear, however, that the gains from growing commercialization and production for the markets were distributed unequally. The more market-oriented western regions, as well as medium and large producers, benefited more from these opportunities in the decades after World War II.

The evolution of prices against agriculture under the impact of the Great Depression, and the emergence of large income disparities between the urban and rural areas, had been an important feature of the 1930s. In comparison, the domestic terms of trade between agriculture and the urban economy remained more in favor of agriculture during the decades after World War II. This was not due only to worldwide trends; it also reflected the political weight of the agricultural producers after the transition to the multiparty political regime. The Democrat Party during the 1950s, and its heir, the Justice Party in the 1960s, developed government programs to support crop prices and subsidize some of the input prices such as fertilizers. These programs and more generally the price movements in support of agriculture benefited the market-oriented medium- and large-scale producers more than the others and they may have increased the inequalities within the agricultural sector as a result (Keyder 1987, pp. 156–63).

High rates of rural to urban migration from the poorer agricultural regions toward the industrializing urban areas created far-reaching consequences for the distribution of income during these decades. Because the tendency to migrate was stronger among the young of poorer households, rural to urban migration tended to limit the inequalities within the agricultural sector as well as the regional differences between rural areas. Even though increases in total agricultural output did not match the growth of the urban economy, the movements in relative prices in favor of agriculture and emigration from rural areas tended to reduce the differences in per capita income between the agricultural sector and the urban economy (Derviş and Robinson 1980, pp. 83–122; Boratav 2011, pp. 135–44).

Evidence on the distribution of income and its evolution within the urban economy is also limited. In the absence of other evidence, one key indicator economic historians follow regarding the distribution of income within the urban economy is the ratio of urban GDP per capita to urban wages. An increase in this ratio suggests declining share of labor in income or an increase in the inequality of income in the urban economy. My estimates suggest that urban wages lagged behind increases in GDP per capita in the urban economy between 1820 and 2015. While GDP per capita in the urban economy rose by more than twelvefold, urban wages increased about sixfold during this period. As a result, the ratio of urban GDP per capita to urban wages rose during the



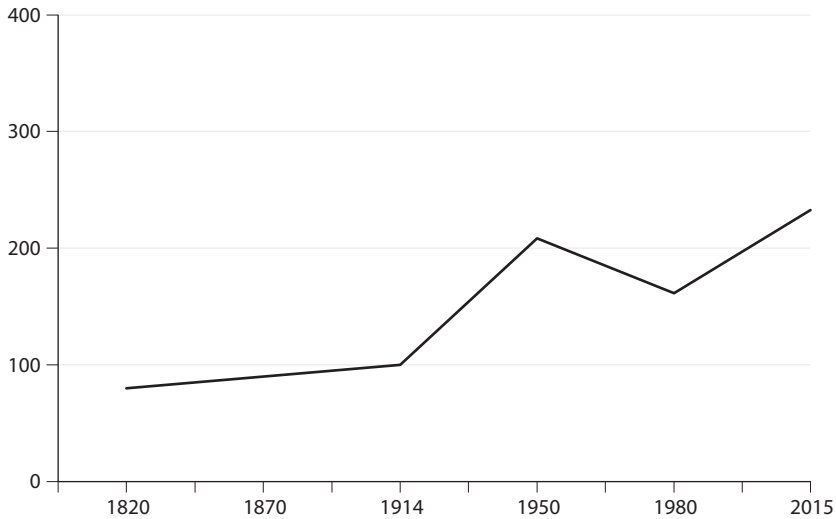


FIGURE 10.3. Long-term Trends in Inequality in the Urban Economy, 1820–2015 (Urban GDP per Capita / Urban Wages; index = 100 in 1914). Sources: Based on the wage series in Boratav, Ökçün, and Pamuk 1985; Özmucur and Pamuk 2002; figure 9.3 in chapter 9, and the GDP per capita series discussed in chapter 2.

last two centuries (figure 10.3). One important reason was that Turkey was an underpopulated country until the second half of the twentieth century and growth in population tended to reduce the share of wages in national income. However, one period in which this long-term trend was reversed was the decades after World War II. With the support of laws that gave workers greater rights to organize and strike, urban wages rose by more than 200 percent between 1950 and 1980. In fact, my calculations using the national income accounts as well as the urban wage series suggest that urban wages rose faster than average income in the urban economy, and inequalities in income distribution in the urban economy tended to decline during these decades. Together with the earlier observations on more rapid economic growth and the distribution of income in agriculture, these trends suggest that agricultural producers and labor in the urban economy increased their share in total income during the decades following World War II.

It is also not easy to determine how inter-regional differences in per capita income evolved during this period. There is strong evidence, however, that in terms of both growing market integration of agriculture and the spread of industrialization, western and southern regions of the country did better than the eastern and northern regions. The regional pattern of industrialization is especially striking. Most of the industrial growth during the decades after

World War II occurred in western and especially northwestern parts of the country, while the northern and eastern regions experienced little increase in industrial activity. The poorest people in the country during these three decades were peasants who had small amounts of land or no land to cultivate in the poor agricultural regions such as Eastern or Southeastern Anatolia, which did not integrate with the markets to the same extent as other regions. Not surprisingly, rural to urban migration during this period also had a strong regional dimension. People moved from rural areas in the east and the north to urban areas in the west and, to a lesser extent, the south. These migration flows tended to reduce but probably did not reverse the widening regional differences in per capita incomes arising from differences in the market orientation of agriculture as well as industrialization. Migration thus appears to be the key reason why east and southeast regions did not fall even further behind in terms of per capita income in the decades after World War II.

Overall, growing commercialization of agriculture, rural to urban migration, and industrialization was accompanied by rates of increase in average incomes of approximately 3 percent per year. Per capita incomes more than doubled during these three decades. The available evidence suggests that market-oriented agricultural producers and labor in urban areas, especially in the faster growing western regions, shared these gains. The shift to a multiparty regime after World War II was an important development that gave the agricultural producers some power to ensure that politicians and governments would pay attention to their concerns. Also important were political changes ushered in with the constitution of 1961 which gave the workers and labor unions more rights to organize. In comparison to the historical periods both before and after, the more equal distribution of income and of the gains from economic growth during the decades after World War II cannot be explained by reference to domestic political changes alone, however. One also needs to point to the Bretton Woods international economic order of this era, which insulated the national economies, provided national governments with greater autonomy, and adopted an economic model that made such an outcome possible (Rodrik 2011, pp. 67–101; Boratav 1986, pp. 117–39).

### Role of Institutions and Institutional Change

Turkey's formal political and economic institutions as well as the global economic institutions underwent major changes after World War II. The single-party regime gave way to a competitive multiparty system in 1950. After an experiment with agriculture-led growth, economic strategy settled in the early 1960s on import-substituting industrialization led by the rising private sector. The formal economic institutions associated with the latter strategy interacted

with the institutions of the Bretton Woods system at the global level. These extensive changes in formal institutions played important roles in bringing about significant increases in per capita income. However, they did not crowd out informal institutions but continued to interact and coexist with them. In fact, informal institutions continued to play key roles in both politics and economic development during these decades, in rural and urban areas as well as via state interventionism. For a more nuanced assessment of the role of institutions in economic development, it is thus necessary to also examine both the formal and informal institutions as well as their interaction, how new institutions emerged as a result, and how they contributed to or hindered long-term economic development.

Significant changes took place in Turkey's political institutions after World War II. With the transition to a multiparty parliamentary system and competitive elections every four years, it became possible not only for big landowners, merchants, and industrialists, but also for the large numbers of small and medium-sized agricultural producers, to make their preferences heard. Thanks to the legal opportunities granted by the 1961 Constitution, workers also started to organize more efficiently. Labor unions wielded more power in the process of determining wages and working conditions. Changes in political institutions thus led to concrete economic outcomes. The limits of the changes in political institutions need to be emphasized as well, however. The military coups in 1960 and in 1971 gave the armed forces strong powers over the regime. In fact, the military became a leading partner in the ruling coalition with veto powers on many key issues, a position they maintained for almost a half century (Ahmad 2010, pp. 92–116). In the early 1970s, new restrictions on freedom of expression and organization were introduced, and it became harder for socialist movements, religious groups, and Kurds to organize or be represented in parliament, even if they were not entirely prevented from doing so. Continuing problems in the judiciary reflected the limits of political institutions and the unequal power relations in society.

Along with the changes in political institutions, the economic model evolved from etatism toward a mixed economy increasingly controlled by the private sector. One leading goal of economic policies during the Interwar period was the creation of Muslim-Turkish economic elites that would eventually lead the economy. The private sector was weak and dependent on the state during the Interwar period, but the new elites began to gain more power after World War II. The agriculture-based strategy adopted during the Democrat Party period reflected the preferences of the vast majority of the population. It was not realistic, however, to expect the agricultural sector to deliver long-term economic growth by itself. For this reason, and because of the short-term focus of the Democrat Party's policies, the 1950s strategy that

focused heavily on agriculture was neither successful nor permanent. Import-substituting industrialization led by the private sector thus emerged as the basic economic strategy in the early 1960s. The large domestic market remained strongly protected from international competition. While the public sector continued to play an important role in economic development and especially industrialization, the control of the economy, particularly the urban economy, shifted to the large holdings companies of the private sector in Istanbul and the Marmara region. Economic institutions were also to a large extent shaped within the framework of this model. The State Planning Organization and the large holding companies were the key economic organizations of this period.

The SPO was established after the 1960 coup at a time when political power was shared between the military regime and the bureaucracy. The military leadership and part of the Ankara bureaucracy viewed the SPO as a strong, cohesive, and autonomous institution that would direct the industrialization process. In its early years the SPO was an elite organization inside the bureaucracy which was able to recruit some of the most qualified young graduates and provide them with good training. SPO developed a strategy of industrialization emphasizing intermediate goods, higher technology content, and a longer-term perspective. This model contained some elements that resembled the practices that were being adopted in East Asia at the time. The private sector in Istanbul, on the other hand, argued that the public sector should not compete with the private sector, and while the SPO may direct the urban public sector, it should only support the private sector with tariffs, subsidies, and incentives. It would be fair to say distrust between the public and private sectors and reluctance to cooperate was mutual. The private sector did not want to be led by and did not want to interact and cooperate with a strong public agency. Instead, it worked with the politicians to weaken the planning agency and its autonomy.

As political power shifted to the parliament and the civilian government in later years, the early model was abandoned and the priorities and goals of the SPO began to be determined increasingly by the private sector, and especially by the large holding companies. Rather than heavy industry and higher technology, the latter wanted to focus on durable consumer goods and automotive production for the domestic market, forming partnerships with multinational companies wherever necessary. Özal's appointment by Prime Minister Demirel as SPO undersecretary in 1967 reflects this transformation very well. Instead of directing an industrialization model that used higher skills and technology to produce more complex products and eventually direct them toward exports, the SPO evolved into a body that gave priority to the short-term goals of the private sector and distributed various subsidies, tax

exemptions, foreign exchange allocations, and other privileges to the well-connected segments of the private sector. There was very little monitoring or public accounting of the benefits provided to the private sector. The transition of the ISI strategy from an emphasis on the longer-term, heavy industry and technology to a private sector-led model producing durable consumer goods for the domestic market, took place under these circumstances (Milor 1970, pp. 1–30; Türkcan 2010).

The holding companies or conglomerates best reflect the organizations that dominated the import-substituting industrialization process in the decades after World War II. From the early 1950s, leading firms and family groups in the urban economy had started to organize into holdings. Companies from sectors such as food processing, textiles, consumer durables, automotives, and tourism which were producing primarily for the domestic market were included in the holdings. To meet the credit needs of the companies within the group, the larger groups usually included a bank among their subsidiaries. If better cooperation among companies of the same group was one advantage of the holdings, another was the various tax exemptions, advantages, and subsidies granted to the holdings by law. All holdings paid special attention to nurturing good relations with the government and the bureaucracy in Ankara. OYAK, which was established for members of the armed forces, had an even more privileged position than other holdings.

After political instability increased in the 1970s, economic policies of short-lived governments focused increasingly on short-term goals. The import-substituting industrialization process moved even further away from long-term goals and measures such as efficiency, competition, and exports. In fact, the goal of directing the more competitive branches of manufacturing toward exports was essentially abandoned. For success in manufacturing, it became more important to stand close to the state and obtain its support. Decisions on which sectors should be included within the scope of protections, and in which branches local production would be promoted, were taken not according to long-term calculations of costs and competitiveness, but according to the demands of the holdings and their influence on the government.

### *Interaction between Formal and Informal Institutions*

The diffusion of formal institutions had been slow during the nineteenth century and the first half of the twentieth century. The privately organized arrangements rooted in informal social networks continued to coexist with and often substituted for formal institutions in urban and especially rural areas. After World War II, urbanization and economic growth as well as improvements in health and education began to gain momentum. The fiscal, adminis-

trative, and legal capacities of the state began to increase as well. These important changes did not mean the disappearance of the informal institutions, however. On the contrary, with rapid rural to urban migration, many of the informal networks as well as power relations were carried from the rural to the urban areas. Patronage, religious, and regional solidarity networks as well as many other informal institutions that already existed in the urban areas developed further and flourished since 1950, interacting with formal institutions and creating new ones. These informal relations played key roles for the recent migrants in securing housing, urban services, and employment. The same informal networks or informal institutions also played prominent roles in the business decisions of a large part of the rapidly growing private sector in the urban areas (Erder 1999, pp. 161-72).

Some of the earliest organizations in the urban areas were based on localism. Relying on loyalty and solidarity allegedly reflecting a shared sense of provincial origin, these new organizations became the building blocks of social, political, and economic networks. Overlapping to some extent with the networks based on localism were the networks formed by religious communities, both Sunni and Alevi, and Kurdish communities. Another large set of informal institutions that spread after World War II were patronage relationships. Without changing the fundamentals of the unequal power relations, patronage networks responded to the demands of these groups. The roots of patronage relations went back to the unequal relations between the big landowners and other powerful people and the poor peasants in the Ottoman era. With urbanization and growing ties between the countryside and the urban areas, patronage relationships spread in both rural and urban areas. Political patronage in the multiparty era often involved the politicians and their local allies obtaining the voters' political support by using their connections to local and national government to find employment for people, solving their problems in dealing with local governments, ensuring that governments provided infrastructure investments such as roads, running water, and electricity, and other urban services to local communities. Making use of the growing volume of low-interest credit expanded by public sector banks to small and medium-sized agricultural producers as well as small businesses in urban areas was another area where patronage relations mattered. Organizations such as the Democrat Party and its successor the Justice Party, and not just individual politicians, successfully benefited from the skillful use of patronage networks and the influence of powerful people in rural areas, and they carried these relationships to the urban areas (Sayar 1977, pp. 103-13).

The demands of the broad segments of the rural and urban populations within the context of a more open and more competitive political regime thus led to the rise of clusters of other informal and formal institutions during the

decades after World War II. The spread of price support programs of the government from wheat and later tobacco to many other crops and the expansion of their coverage and annual budgets especially during election years was one such example. The *gecekondu* system involving the building of private housing by recent migrants on state-owned lands and eventually acquiring from the government the formal property rights to such lands, as well as obtaining from the local governments the infrastructure and other services to the rapidly growing districts, was another such example. The cluster of informal and formal institutions related to the *gecekondu* thus provided lower cost housing to the recent migrants when large amounts of unused urban land still existed (Öncü 1988, pp. 38–64).

Different formal and informal institutions may have different effects on economic growth, some positive and others negative. It would be safe to say the spread of these informal institutions and their interaction with formal institutions in the decades after World War II, on the whole, contributed to economic growth. Thanks to these informal institutions and their interaction with formal institutions, large segments of the population, both rural and urban, were also able to claim a larger share of the growing economic pie. The emergence of these institutions meant that urbanization and industrialization proceeded not through the dispossession of the recent migrants to the urban areas, but by transferring the small property and small-scale production institutions which were one of the distinguishing features of the Ottoman era from the rural to the urban areas after World War II. These policies and institutions, which have also been described as populism, were, up to a point, not in contradiction with the model of industrialization through import substitution and the Bretton Woods institutions because the additional income obtained by the broader groups also created additional demand for domestic production, which was strongly protected from foreign competition (Boratav 1986, pp. 117–39; Sunar 1984, pp. 2076–86). After the Bretton Woods order came to an end in the 1970s with the disintegration of the fixed exchange-rate regime and lifting of controls on international capital flows, it would become increasingly difficult to sustain some of these arrangements.

### *Institutions and State Interventionism*

State interventionism certainly contributed to growth in Turkey during the decades after World War II. However, the low rates of total productivity growth and no more than average rates of economic growth also suggest that state interventionism has had a mixed record during this period. In addition, state interventionism often served the interests of narrow groups, reproduced existing inequalities, and created new inequalities. The evolution of state in-

terventionism and the mixed results it generated during the 1960s and 1970s necessitates a closer examination of the roles played by formal and informal institutions in the implementation of interventionism. The success and failure of state interventionism has been due not only to the content of the policies but also the specific sets of institutions that were chosen or designed to implement these policies. One important reason why government interventionism produced mixed results was the weaknesses of the two main actors—the bureaucracy and the private sector—and their inability to cooperate. Institutions of cooperation, organization, and conflict resolution were critically important not only for the state but also for social actors to function effectively in the defense of their interests. Institutions could contribute but also impede the cohesion and strength of different social actors.

The absence of a cohesive and stable bureaucratic structure and a poorly organized private sector often dependent on the public sector as well as the politicians made it very difficult to develop regularized ties and institutions of consultation and cooperation between them. The weaknesses of the public sector, the cleavages and weaknesses of the private sector, and the difficulties of cooperation between the two are best understood in historical terms, in terms of the persistence of key institutions. Despite the tradition of a strong state going back to the nineteenth century and even earlier, the public sector often lacked the cohesion and autonomy from both the politicians and the private sector to implement coherent, rules-based policies. It is not surprising that the model of strong, cohesive, and autonomous public agency directing industrialization and guiding the private sector during the 1960s did not survive very long. The public sector became increasingly more fragmented during the political instability and short-lived coalition governments of the 1970s as political parties divided the ministries and tried to maximize the electoral gains. There were frequent changes in the higher echelons of the bureaucracy. The economic bureaucracy thus lost the cohesion and capacity necessary for the implementation of a coherent program of interventionism in favor of industrialization.

The private sector was also fragmented and poorly organized. Cleavages have often made it difficult for different groups to come together and negotiate and cooperate. As a result, individual or small group interests organized around informal networks have often taken precedence over larger collective interests. The business organizations were dominated by politicians. The major national organization bringing together representatives of the private sector, Union of the Chambers and Commodity Exchanges, was established by law in 1951 and was controlled by the government. Industrialists were not always the most powerful group within the private sector. Governments paid a good deal of attention to the demands of large-scale merchants. Leading



industrial groups began to organize during this period around holding companies or conglomerates controlled by families. Examples of cooperation within business groups existed, but companies and individual businessmen often preferred to engage in bilateral lobbying. A large part if not most of lobbying remained focused on particular and narrow benefits (Öncü 1980, pp. 455–80; Bianchi 1984; Biddle and Milor 1997, pp. 277–309).

The first voluntary organization of the private sector consisting mostly of the owners and managers of the largest conglomerates was established in 1971. The Turkish Industry and Business Association (TUSIAD) was not able to shed its image as the club for the rich, however. It also lacked the capacity to design and enforce well-defined rules of interaction with the public sector for its members. Members and their companies continued to engage in bilateral lobbying. Politicians and state elites often found it expedient to encourage and take advantage of these cleavages by playing one group against the other. In fact, rather than well-defined, transparent channels and well-observed rules, both the private sector and the politicians often preferred bilateral and opaque ties and particularistic relations.

More broadly, the success of the institutions and policies of state interventionism have been closely related to the relations between the competing elites and the state in Turkey. State elites, the bureaucracy, and the military have also played important roles in this process as they pursued their own interests by themselves or in cooperation with some of the other elites. The configurations between the competing elites, between the private and the state elites, and between the secular and conservative elites have changed over time, but the cleavages and weak state capacity have persisted. When the distribution of benefits from an existing institution or a new institution was not consistent with the existing distribution of power in society, the various elites could mobilize, bargain, and put pressure on others as well as the state to try to change the formal institutions or reverse the policies. For this purpose, the competing elites often made use of informal institutions including identity-based networks and patron-client relations. In other words, although it may often be difficult to distinguish between interests and culture as the ultimate cause, many of the patterns and outcomes that appear to be the result of beliefs, norms, customs, and more generally culture may in fact be explained by interests and power.

Countries in East Asia had success with state interventionism but they had very different balances between the state and the elites and different institutions. While the state actively interacted with society, it also maintained a high degree of autonomy when confronted with the short-term interests of different groups. The formal and informal institutions that facilitated the consultation and cooperation of the public and private sectors played key roles in the

successful outcomes in these East Asian countries. State policies supported by these institutions not only changed the behavior of the private sector, but they also enabled new institutions to emerge and made it easier for the new institutions promoting industrialization to become stronger over time. The institutional structure created during the industrialization process thus gained permanence over time and continued to influence behavior in later periods. The East Asian state and its relationship with the private sector was the product of unique historical circumstances, however, and it has not been easy to replicate the success of East Asian countries with interventionism in other countries even though the same formal institutions and similar strategies of support for export-oriented manufacturing have been adopted. The problem has not been just that state capacity or the capabilities of the formal agencies charged with enforcement duties was weak. The state in Turkey could not harness the different powers and capacities of the elites and deal with various collective-action problems. The distribution of benefits from the enforcement of the new institutions and policies of interventionism has not been not in line with the existing distribution of power in society. Various elites often chose to develop formal and informal institutions different from those defined by the state that will better serve their interests.

## Human Development

Measures of both health and education, the two basic dimensions of human development, began to show more rapid improvement in Turkey after World War II. In comparison to the nineteenth century, mortality rates especially among infants and children had begun to decline and life expectancy had begun to rise more rapidly during the Interwar period, but the increases accelerated significantly after World War II. Life expectancy at birth rose from 44 years in 1950 (45 for women, 42 for men) to 59 years (61 for women, 57 for men) in 1980. In other words, life expectancy rose by one year every two years in Turkey during the decades after World War II (see figure 2.3 in chapter 2 and table 10.2).

Two broad causes were responsible for the decline in mortality and the increases in life expectancy. First, economic growth meant rising income levels and better nutrition, especially for the poor in both the urban and rural areas. Economic growth also led to increases in the resources of the state and more generally increases in state capacity. As public revenues and expenditures increased and links between rural and urban areas were strengthened, medical facilities, health-care services, as well as basic infrastructure such as clean drinking water were made more readily available across the country, particularly in rural areas. Urbanization made it easier for a rising share of the

population to access health-care services. The fights against malaria, tuberculosis, and other contagious diseases were helped by these improvements. Second, growing knowledge and new ways of doing things such as the discovery of penicillin and other antibiotics, and routine vaccinations, brought about more effective ways to fight diseases and reduce mortality around the world and in Turkey. It is difficult to measure the contribution of each, but they both contributed strongly to the rise of life expectancy at birth. The changing institutions, both formal and informal, also played important roles in the rise of life expectancy at birth. Not only the increase in state capacity and government policies but the acceptance and growing willingness on the part of the population, especially the rural population, to make use of these services mattered (Hacettepe Üniversitesi Nüfus Etütleri Enstitüsü 2008, pp. 12–20; Akder 2010, pp. 224–31).

The second important and related cause of the increases in life expectancy at birth was the slow decline in infant mortality which accounted for a large share of total deaths. Infant mortality declined from about 250 per thousand in 1950 to 125 per thousand in 1980 as diseases, particularly diarrheal, respiratory, and other infectious diseases, persisted among rural children. Infant mortality remained high and declined slowly also because of the low education levels of women in rural areas, as well as the large social and economic inequalities between regions. As a result, large differences in infant mortality rates between rural and urban areas and the west and the east of the country persisted during these decades. The highest rates of infant mortality occurred in rural areas in the mostly Kurdish southeast where both income per capita and levels of education, especially rural women's education, lagged well behind national averages.

Gains in life expectancy as well as access to health care were also distributed unevenly between urban and rural areas, between regions of the country, men and women, as well as the rich and the poor. The most rapid increases in life expectancy occurred in the urban areas and in the western and coastal regions, where incomes were higher and health services were more readily available. While we do not have detailed estimates for the earlier period, it is clear that women benefited more than men from the declines in mortality, as the life expectancy at birth between women and men expanded from 2 to 4 years during the post–World War II decades.

Life expectancy at birth rose strongly in most developing countries during the decades after World War II. In fact, all developing regions of the world with the exception of Sub-Saharan Africa experienced convergence in life expectancy toward the levels of developed countries, as the gains due to the declines in infant mortality in the developing countries was greater than the gains in life expectancy due to declines in adult mortality in developed coun-

tries. It may be useful to assess how Turkey fared in terms of life expectancy at birth in relation to other developing countries, and more specifically, in relation to developing countries with similar levels of GDP per capita. Samuel Preston has identified a relationship between GDP per capita and life expectancy at birth but has also shown that this curve has shifted upward over time due to growing knowledge and new ways of doing things. For its level of GDP per capita, life expectancy at birth in Turkey during the decades after World War II remained close to but slightly below the levels expected on the basis of its rising GDP per capita. In other words, Turkey was placed close to but slightly below the Preston Curve as the latter shifted upward over time. High rates of infant mortality, low levels of education for women, and high levels of regional inequality were among the leading reasons why life expectancy in Turkey lagged behind other developing countries with similar levels of GDP per capita during these decades (Zijdeman and de Silva 2014, pp. 106–12; Riley 2001, pp. 1–57; Deaton 2013, pp. 101–64).

As for education, numbers of students at all levels began to rise more rapidly in the decades after World War II along with more rapid economic growth, higher government spending, and rapid urbanization. The literacy rate increased from 33 percent in 1950 (19 percent for women and 46 percent for men) to 68 percent in 1980 (55 percent for women and 80 percent for men) (see table 10.2). Graduation rates from elementary schools rose from 30 percent of the age group in 1950 to 85 percent in 1980. Similarly, graduation rates for secondary schools increased from 4 percent of the age group in 1950 to 22 percent in 1980, and graduation rates for four-year universities increased from 1 percent of the age group in 1950 to about 6 percent in 1980. However, because of the slow increases in resources allocated to education as well as low levels of income and the reluctance of some families to send their daughters to school, Turkey continued to lag behind other developing countries with similar GDP per capita levels in basic indicators of education.

Moreover, as in health, the increases in student numbers and years of schooling did not lead to decline in inequalities. Differences in educational attainment remained strongly linked to rural-urban, regional, gender, and income differences. While literacy rates increased among the rural population, average years of schooling increased faster in the urban areas. Literacy and years of schooling also rose faster in the more developed western and coastal regions than in the east and southeast. In addition, differences in the quality of education between rural and urban areas, between the more and less developed regions, and between income groups persisted and may have even increased, further contributing to the regional inequalities. Nonetheless, higher levels of public spending on education and rising numbers of students helped make education an important vehicle for social mobility, especially among the

urban population during this period (Tansel 2002, pp. 455–70; Tansel and Güngör 1997, pp. 541–47).

Gender differences also remained high and declined only slowly at all levels of schooling during these decades. While numbers of female students increased from 60 percent to 80 percent of those of male students among elementary students, among high school and university students, numbers of female students increased only slightly, from 25 percent to 32 percent of those of male students between 1950 and 1980. Average years of schooling for all adult women increased from about 42 percent to 60 percent of those for men during the same period. The gender differences were lower in the urban areas, in the more developed western regions, and among middle- and higher-income groups, but higher in rural areas, in the less developed east and southeast, and among lower-income groups.

Average formal schooling received by adults over fifteen years of age increased from 1.2 years in 1950 to 4.2 years in 1980 in Turkey, while the world averages increased from 3.2 years to 5.3 years during the same period. This put education levels in Turkey not only well below the developed countries of Western Europe and the United States but also below the averages for Eastern Europe, Latin America, and China, but above those of Egypt, and South and Southeast Asia and Sub-Saharan Africa (van Leeuwen and van Leeuwen-Li 2014, pp. 93–98). In other words, Turkey lagged behind countries with similar levels of GDP per capita in Latin America and East Asia when it came to education during the decades after World War II, making it more difficult for manufacturing to move up toward higher technology, higher value-added goods, and sectors requiring higher skills.

### *Demographic Transition*

Like the majority of developing countries, Turkey experienced the demographic transition or the transition from high birth rates and high mortality rates to low birth and low mortality rates during the twentieth century and mostly after World War II. Even though mortality rates had begun to decline, the fertility rates had remained high in the Interwar period.<sup>1</sup> As a result, the demographic transition began in earnest after World War II, but it proceeded

1. Duben and Behar have shown that the fertility rate was quite low in Istanbul during the second half of the nineteenth century and before World War I. However, this was not necessarily true of the other urban areas or the rural areas for which we have little information (Duben and Behar 1991). In fact, it is likely that the fertility rate for Turkey as a whole during the nineteenth century was not very different from what it was during the Interwar period.

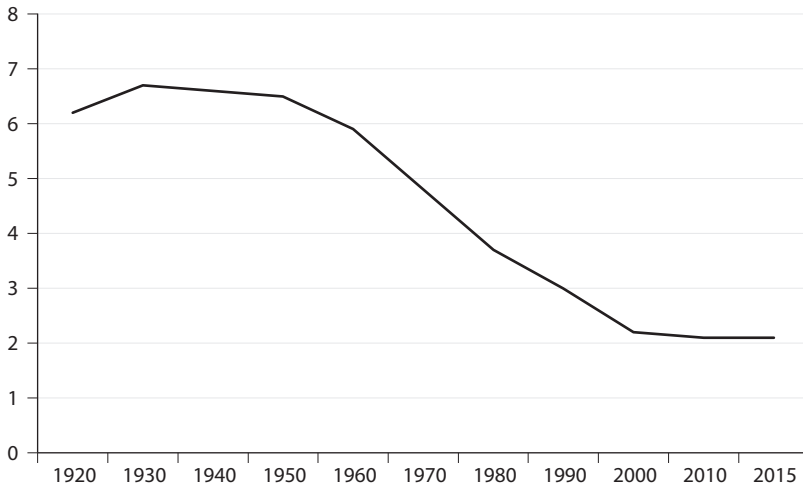


FIGURE 10.4. Fertility Rate in Turkey, 1925–2015 (average numbers of live births per woman). Sources: Hacettepe Üniversitesi Nüfus Etütleri Enstitüsü 2008, pp. 12–20; Turkey, Devlet İstatistik Enstitüsü (State Institute of Statistics), 1995.

very rapidly. Along with mortality rates, birth rates declined sharply. The fertility rate, which reflects the average number of live births per woman during child-bearing years, declined from 6.5 in the 1950s to 3.8 in the 1980s, and 2.1 in the 2010s (figure 10.4). That is, the decline in the mortality rate was the main reason for the high rates of population growth during the decades following World War II. As the decline in mortality rates began to slow down, the rapid decrease in the total fertility rate emerged as the main cause behind the decline in population growth rates, from 2.9 percent per year in the 1960s to 1.1 percent in the 2010s.

Urbanization contributed strongly to the decline in both mortality and fertility rates after World War II. The greater availability of health-care services in the urban areas led to significant declines in both infant and adult mortality rates. As infant deaths decreased, families began to have fewer children. More importantly, as women began to gain more education in the urban areas and to work outside the home, albeit in limited numbers, the transition to a family structure with fewer children that offered each of the children better educational opportunities gained momentum. The fertility rate always showed large differences between rural and urban areas. In 1950, while the total fertility rate in rural areas was 6.8, it was 4.3 in other cities, and in Istanbul and İzmir it was only 2.7. The same rates declined to 4.0, 2.8, and 2.2, respectively, by 1990 (Shorter and Macura 1983, pp. 66–101; Hacettepe Üniversitesi Nüfus Etütleri

Enstitüsü 2008, pp. 12–47; Turkey, Devlet İstatistik Enstitüsü [State Institute of Statistics] 1995). The large differences that existed after World War II between the fertility rates of different regions, especially between the western and the eastern parts of the country, have declined over time but they persist. An important element of these differences has been due to the higher rates of urbanization as well as women's education in the west.