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Turkey 1946–1990

INTRODUCTION

This chapter will examine the evolution of the economy of Turkey in the postwar era in three sub-periods: agriculture-led growth, 1947–1962; the high age of import substituting industrialization (ISI) and its crisis, 1963–1979; economic liberalization and increasing macroeconomic instability, 1980–1990. For each sub-period the focus will be on the domestic and international forces that gave rise to a specific economic model and the evaluation of economic performance. A concluding section will briefly review the record for welfare and distribution.

TOWARDS A MORE LIBERAL ECONOMY

After the end of the Second World War, domestic and international forces combined to bring about major political and economic changes in Turkey. Domestically, many social groups had become dissatisfied with the single-party regime by 1946. In the countryside, poorer segments of the peasantry had been badly affected by wartime taxation and government demands for the provisioning of the urban areas. The gendarme and the tax collector had become more hated and feared than ever.[1] In an attempt to mend fences with these groups, the regime passed through parliament a bill which gave the government the power to redistribute all holdings above 50 dunums (4.5 hectares or 11 acres). The parliamentary debate on the bill was very heated and gave rise to strong criticism of the government, especially from members with landowning connections. This bill played an important role in the emergence of an open opposition to the single-party leadership within the parliament.

In the urban areas, the wealth levy of 1942 had caused unrest and suspicion amongst the Muslim bourgeoisie even though the measure had been used to discriminate against non-Muslims. After more than two decades of rule by the Republican People's Party, the bourgeoisie was no longer prepared to accept the position of a privileged but dependent class, even though many of them had benefited from the wartime conditions and policies. In addition, laborers, who constituted a small minority, and other waged and salaried workers, including civil servants, had been hard hit by the wartime inflation and profiteering.[2]

The opposition to the regime thus began to demand, *inter alia*, greater emphasis on private enterprise, the agricultural sector, and a more open economy. In response, the single-party regime led by President Inönü decided to allow competition within the political system and began to move towards a multi-party electoral system. The opposition, led by the representatives of large landowners and merchants, founded the Democrat Party in 1946.

International pressures also played an important role in the shaping of new policies. The emergence of the United States as the dominant world power after the Second World War had shifted the balance toward a more open political system and a more liberal and open economic model. At this juncture, Soviet territorial demands pushed the Turkish government towards closer cooperation with the United States. As the country began to be drawn increasingly into the American sphere of influence, Marshall Plan aid was extended to Turkey for military and economic purposes, beginning in 1948. Numerous foreign experts and official missions visited the country during this period to express their preference for a more liberal and open economy. Perhaps the most influential intervention was the report prepared for the World Bank by a commission of American experts led by the industrialist Max Thornburg, which called for the dismantling of a large number of the etatist manufacturing establishments, including the country's only iron and steel complex, as well as greater emphasis on private enterprise, encouragement of foreign capital, a more liberal foreign exchange and trade regime, and greater reliance on agricultural development. These changes, the report stated, were necessary if Turkey was to benefit from United States aid and the inflow of private American capital in the postwar era.[3]

It has been argued by many that the electoral victory of the Democrats in 1950 was the major turning point for the economy. In fact, in terms of both policy and performance, the true turning point came in 1947 when the Republican People's Party decided to set aside the etatist third five-year plan, which had been prepared during the previous summer, and began to move in the direction of greater reliance on private capital and greater emphasis on agriculture. It also offered a new definition of etatism which still reserved for the state such activities as public works, mining, heavy and military industry, and energy, but assumed the transfer of all other enterprises to private capital.

Even before the elections of 1950, therefore, the single-party regime had begun to adopt some of the basic positions of the opposition. But the Democrats pursued the same trail with greater enthusiasm once they came to power. One important change by the Democrat Party was the liberalization of imports, especially of consumer goods.[4] In this, the new government was aided by the substantial volume of foreign reserves accumulated during the austerity years of the Second World War, the improvements in the external terms of trade which began in 1947, and the favorable world market conditions of the Korean War boom that supported a strong expansion of Turkish exports until 1953. The Democrat Party platform had also called for the sale of state economic enterprises to the private sector. This goal was soon abandoned, however; because in the early 1950s the private sector was not interested in acquiring these enterprises (see Table 5.1).

AGRICULTURE-LED GROWTH, 1947–1962

Another important change instituted by the Democrat Party was the strong emphasis placed on agricultural development. Official statistics show that agricultural output more than doubled from 1947, when the pre-war levels of output had already been attained, through 1953. The most important reason for this strong performance was an increase in the cultivated area by 55 percent thanks to the availability of marginal land.[5] The expansion of the agricultural frontier was supported by two complementary government policies, one for the small peasants and the other for larger farmers. First, even though the Land Distribution Law of 1946 included a clause for the redistribution of large holdings, it was used instead to distribute state owned lands and open up communal pastures to peasants with little or no land. The land distributed under this law, and the transfer of communal pastures to peasants and village cooperatives, together accounted for about half of the postwar increase in the area under cultivation. This aspect of government policy also served to strengthen small ownership across Anatolia, except for the southeast, where the Kurdish landlords and tribal leaders were dominant. Secondly, the Democrat Party government used the Marshall Plan aid to finance the import of agricultural machinery, and especially tractors, whose numbers jumped from fewer than 10,000 in 1946 to 42,000 at the end of the 1950s. Most of these were purchased by the prosperous farmers who were given favorable credit terms through the Agricultural Bank, and were used to expand the area under cultivation. According to a rule of thumb of the period, while a pair of oxen could cultivate 5–10 hectares (12.5 to 25 acres) in a given year, a tractor raised that figure to 75 hectares (185 acres). The tractors were also rented by smallholders who paid for their use by sharecropping.

Agricultural producers also benefited from favorable weather conditions, increasing demand, and improving terms of trade during this period. Domestic prices began to move in favor of agriculture in the late 1940s, and the country's external terms of trade improved by as much as 44 percent from 1948–50 to 1951–53 as world demand for wheat, chrome, and other export commodities rose as a result of America's stockpiling programs during the Korean War.[6] In a country where three-fourths of the population lived in the rural areas, the agriculture-led boom of the early 1950s meant good times and rising incomes for all sectors of the economy. It seemed in 1953 that all would go well and that the promises of the liberal model of economic development would be quickly fulfilled. GNP increased by an average annual rate of 8.7 percent from 1947 through 1953. Urban groups shared in this growth as evidenced by the increases in wages and salaries (see Tables 5.3 and 5.4).

These golden years did not last very long, however. The favorable conjuncture quickly disappeared after 1953. With the end of the Korean War, international demand slackened and the prices of export commodities began to decline. At the same time, the weaknesses of the agricultural sector began to assert themselves. The Anatolian countryside continued to rely on dry farming with virtually no use of chemical fertilizers during the 1950s. Irrigation did not yet rank high on the list of government investments. Only 5.5 percent of the total cropped area was being irrigated at the end of the decade. With the disappearance of the favorable weather conditions, agricultural yields began to stagnate and even decline. Moreover, the rate of expansion in cultivated area slowed down considerably in the second half of the 1950s as the bounds of profitable cultivation were approached. Agricultural production levels thus fluctuated and did not show an upward trend until the early 1960s. For sustained increases in yields, Turkish agriculture had to wait until after the mid-1960s when the limit of land availability encouraged a shift to more intensive techniques of production, including the use of fertilizers and high yielding varieties of seeds (see Tables 5.2 and 5.3).

It was at this juncture that, rather than accept lower incomes for the agricultural producers who made up more than two-thirds of the electorate, the government decided to shield them from the adverse price movements by initiating a price support program for wheat. Such supports became, after 1954, the most important government program affecting agricultural incomes. They were not financed directly out of the budget but by Central Bank credits to the Soil Products Office, the state agency responsible for the purchase of low priced wheat, as well its distribution to urban areas. The extent to which these subsidies may have caused the inflationary wave that began in the mid-1950s has been the subject of much debate. Earlier observers point out that the outstanding Central Bank credits to the Soil Products Office account for most of the increase in the money supply in this period.[7] More recently, however, Bent Hansen has argued that the main culprit was the credit extended from deposit banks to the private sector, including the cooperatives.[8]

Through the continued expansion of domestic demand, the government was able to maintain economic growth for several additional years. In the meantime, however, exports declined even further owning to the overvaluation of the currency, and foreign exchange reserves were quickly exhausted under the liberalized import regime. As imports began to be curtailed, the economy moved from the relative abundance of the early 1950s into a severe balance of payments crisis, characterized by shortages of many items of basic consumption.

One casualty of the crisis was the political and economic liberalism of the Democrat Party. Just as it responded to growing political opposition with the escalation of political tensions and restrictions on democratic freedoms, in most economic issues the government was forced to change its earlier stand and adopt a more interventionist approach. Quantitative restrictions on imports were generalized and controls on the use of foreign exchange were tightened. In the domestic market, price and profit controls were initiated and credit began to be allocated through non-price mechanisms. The government also rediscovered the state economic enterprises as useful instruments for relieving some of the bottlenecks and for capital formation in manufacturing, infrastructure, and mining.

With the balance of payments crisis of the mid-1950s, the experimental move towards a more open economy came to an end. Amidst the shortages and bottlenecks induced by the severe restrictions on imports, domestic industry began to produce some of the goods which had been imported in large volumes only a few years earlier. There thus emerged a return to ISI, not yet as explicit government policy but as a *de facto* shift that arose out of necessity. Even though the annual rates of growth for manufacturing industry were not very different for our two sub-periods, at 6.5 percent for 1947–1953 and 7.6 percent for 1954–1962, there was in fact a qualitative difference between the two (see Table 5.3). The former was characterized by high rates of growth of primary exports, incomes, and imports. The increases in value added in manufacturing were due to increases in demand and the value of output. The latter period, by contrast, was characterized by strict import restriction, which created more suitable conditions for increasing the value added per unit of output in manufacturing.

The government negotiated with the International Monetary Fund (IMF) and the Organization for Economic Cooperation and Development (OECD) for loans and foreign exchange relief from 1956 until 1958, but refused to undertake the major devaluation they demanded until after the elections of 1957. As a result, the crisis lasted for several years. The magnitude of the devaluation of 1958 reflected the extent of the overvaluation of the currency, the value of the Turkish lira being reduced from 2.80 to 9.00 to the dollar. In addition to the devaluation, the stabilization program also included most elements of something which later came to be referred to as the IMF package: import liberalization, changes in the export regime, removal of price controls, increases in the prices of state economic enterprises, and consolidation and rescheduling of the external debt.[9] While the balance of payments picture improved, and the rate of inflation declined as a result of these measures, the economy plunged into a severe recession which was prolonged by the military coup of 1960 and lasted until 1961. The annual rate of growth of GNP declined to 4.0 percent per annum and that of per capita GNP to 1.3 percent per annum between 1954 and 1962 (see Table 5.3).

Foreign direct investment remained limited during the 1950s, at well below $10 million per year, despite occasional modifications of the existing laws to provide more flexibility for profit transfers and the repatriation of the original investment. United States firms accounted for about 40 percent of the total, followed by Switzerland, Germany, and Holland. In contrast, Turkey received substantial amounts of public funds in the form of military and economic aid in the postwar period, beginning with the Marshall Plan and continuing with other bilateral funds from the United States, NATO assistance, and some multilateral loans. These public capital inflows averaged over $100 million per year, or more than one-third of the country's annual export earnings during the 1950s.

Despite the stagnation in agricultural output and the decline in international prices after 1954, the domestic terms of trade remained favorable to agriculture because of the government price support policies, allowing the rural producers to hold on to their gains until 1957. The countryside was thus the real beneficiary of the Democrat Party era, although it is difficult to establish how this affected the distribution of wealth within the rural economy. In contrast, inflation squeezed wages and salaries in the urban areas.[10] The decline in the standard of living and social status of civil servants, especially of military personnel, played an important role in the organization of the armed forces against the government and the military coup of 1960.

The Democrat Party thus emerges as the first example of a populist government in twentieth century Turkey. Not only did it target a large constituency and attempt to redistribute income towards it, but it also tried to sustain economic growth with short-term expansionist policies, with predictable longer-term consequences. To this day, the Democrat Party government and especially its leader, Prime Minister Adnan Menderes, originally a large landowner, continue to be viewed most favorably by the agricultural producers and many of their descendants who now live in the urban areas, as the first administration to understand and respond to the aspirations of the rural population.

The 1950s also witnessed the dramatic acceleration of rural to urban migration in Turkey. It has long been debated whether the Turkish domestic migration was due to push or pull factors. There were undoubtedly both, and the conditions prevailing in rural areas varied widely across the country. Nonetheless, the distribution of land to peasants with small holdings, the substantial increases in land under cultivation, and the strong increases in agricultural incomes all suggest that pull factors played the more important role in the process. The development of the road network also contributed to the migration process.[11]

THE GOLDEN AGE OF IMPORT SUBSTITUTING INDUSTRIALIZATION, 1963–1977

One criticism frequently directed at the Democrats was the absence of any coordination and long-term perspective in the management of the economy. Hence, the military regime was quick to establish the State Planning

Organization (SPO) in 1960. The idea of development planning was supported by a broad coalition: the Republican People's Party with its etatist heritage, the bureaucracy, the large industrialists, and even the international agencies, most notably the OECD. Planning methodology and target setting were strongly influenced by Professor Jan Tinbergen, who was invited as the chief consultant to the SPO to coordinate the preparation of the first five-year plan.

The economic policies of the 1960s and 1970s aimed, above all, at the protection of the domestic market and at industrialization through import substitution. Within this framework, the five-year plans constituted attempts to coordinate investment decisions. The planning techniques made heavy use of a restrictive trade regime, investments by state economic enterprises, and subsidized credit as key tools in achieving ISI objectives. The plans were based on medium-term models and did not give much weight to short-term policy issues, most notably fiscal and monetary policy. They were binding for the public sector but only indicative for the private sector. In practice, the SPO played an important role in private sector decisions as well, since its stamp of approval was required for all private sector investment projects which sought to benefit from subsidized credit, tax exemptions, and import privileges, and to obtain access to scarce foreign exchange. The agricultural sector, dominated by peasant ownership, was left mostly outside the planning process.[12]

With the resumption of import substitution, the state economic enterprises once again began to play an important role in industrialization. They accounted for more than 20 percent of the value added and about half of fixed investment in manufacturing industry until the end of the 1970s. Their role, however, was quite different in comparison to the earlier period. During the 1930s, when the private sector was weak, industrialization was led by the state enterprises and the state was able to control many sectors of the economy. In the postwar period, in contrast, the big family holding companies, large conglomerates which included numerous manufacturing and distribution companies as well as banks and other services firms, emerged as the leaders. Some of these, such as the Koç group, had emerged in the 1920s but entered industry in the postwar years either independently or in joint ventures with foreign capital. The Sabanci group began its rise manufacturing textiles in the cotton-growing Adana region during the 1950s. Eventually there emerged a crude division of labor between the two sectors. The state enterprises were directed to invest in large-scale intermediate goods industries, while the private firms took advantage of the opportunities in the heavily protected and more profitable consumer goods sector. From food processing and textiles in the 1950s, the emphasis shifted increasingly to radios, refrigerators, television sets, cars, and other consumer durables. Foreign capital in the ISI industries remained modest. A large part of the technology was obtained through patent and licensing agreements rather than direct investment.

The years 1963–77 thus represent for Turkey what Albert Hirschman has called the easy stage of ISI.[13] While the opportunities provided by a large and protected domestic market were exploited, the ISI program was not carried into the technologically more difficult stage of a capital goods industry. The export orientation of manufacturing industry also remained weak.[14] Foreign exchange necessary for the expansion of production was obtained from traditional agricultural exports and workers' remittances.

The ISI policies were successful in bringing about economic growth, especially in the early stages. GNP increased at an average annual rate of 6.8 percent during the period 1963–77. Even if the crisis years of 1978–79 are included in the calculations, the average rate of GNP growth of 6.0 percent still compares well with the two other periods in the post-war era (see Table 5.3). The rate of growth of manufacturing industry was considerably higher, averaging more than 10 percent per annum between 1963 and 1977 and more than 9 percent between 1963 and 1979. Since the population growth rate was 2.4 percent per annum during this period, the average rate of growth of GNP per capita was 4.3 percent for 1963–77 and 3.5 percent for 1963–79. This performance is close to the average rates of per capita growth of 3.6 percent for the middle income countries as defined by the World Bank, and above the 3.4 percent for the industrialized countries and the 1.4 percent for the low-income countries during the same period.[15]

The role played by the domestic market during this period deserves further attention. Despite the apparent inequalities in income, large segments of the population, including the civil servants, workers, and to a lesser extent, agricultural producers, were incorporated into the domestic market for consumer durables. Perhaps most importantly, real wages almost doubled during this period (see Table 5.5). Behind this exceptional rise were both market forces and political and institutional changes. While industrial growth increased the demand for labor, the emigration of more than one million workers to Europe before 1975 kept conditions relatively tight in the urban labor markets. At the same time, the new rights obtained under the 1961 Constitution, including the increased ability to organize at the workplace and strike, supported the labor unions at the bargaining table. For their part, the large industrial firms, which were not under pressure to compete in the export markets, reasoned that they could afford these wage increases, as they also served to broaden the demand for their own products. By the middle of the 1970s, however, the industrialists had begun to complain about the high level of wages and an emerging labor aristocracy. Similarly, in the rural areas, the small and medium-sized peasant producers, as well as the larger landowners, were able to share in the expansion of the domestic market, thanks to government price support programs and the manipulation of the domestic terms of trade in favor of agriculture, especially during election years.[16]

Another important contribution to the expansion of the home market came from remittances sent by workers in Europe.[17] These inflows remained modest during the 1960s when the workers began arriving in Europe. After the devaluation of 1970, however, they jumped to more than $1.4 billion per year, or 5 percent of GNP, and began to exceed the economy's total earnings from exports. But the balance sheet for the remittances remains mixed. While they supported the balance of payments and growth in the short term, they also contributed to the over-valuation of the domestic currency, thereby reducing the competitiveness of the tradable sectors. The aggregate demand they generated was met by the importation of intermediate goods, which ended up hurting the import substitution process. Their impact was thus very similar to that of the 'Dutch disease' frequently observed in the oil-exporting economies. Remittances began to decline in the second half of the 1970s, however, as immigration restrictions in Europe forced the workers to re-evaluate their savings behavior. The overvaluation of the Turkish lira also discouraged remittances, at least those sent through the official channels.

While industry and government policy remained focused on a large and attractive domestic market, exports of manufactures were all but ignored, and this proved to be the Achilles' heel of Turkish industry. Throughout the 1960s and 1970s, the share of exports in total manufacturing output remained below 12 percent. Similarly, the share of industrial exports in GDP remained below 2 percent until 1980.[18] A shift towards exports would have helped Turkish industry in a number of critical ways. It would have increased its efficiency and competitiveness, acquired the foreign exchange necessary for an expanding economy, and even supported the import substitution process itself in establishing the backward linkages towards the technologically more complicated and more expensive intermediate and capital goods industries. There existed an opportunity for export promotion in the early 1970s, especially in the aftermath of the relatively successful devaluation of 1970. By that time, Turkish industry had acquired sufficient experience to be able to compete, or at least to learn to compete, in international markets.

For that major shift to occur, however, a new orientation in government policy and the institutional environment was necessary. Not only the overvaluation of the domestic currency but many other biases against exports needed to be eliminated. Instead, the successes obtained within a protected environment created the vested interests for the continuation of the same model. Most of the industrialists, as well as organized labor, which feared that export orientation would put downward pressure on wages, favored the domestic market-oriented model. Moreover, political conditions became increasingly unstable during the 1970s. The country was governed by a series of fragile coalitions with short-term horizons. As a result, no attempt was made to shift towards export-oriented policies or even adjust the macroeconomic balances after the first oil price shock of 1973.[19]

THE CRISIS OF ISI

When oil prices rose in 1973, the total oil bill was still small and the balance of payments awash with remittances. The government could thus afford to ignore oil price hikes without major short-term consequences. Instead, the weak coalitions chose to continue with expansionist policies at a time when many of the industrialized economies were taking painful steps to adjust their economies. With the support of the foreign exchange reserves and an accommodating monetary policy, the Turkish public sector embarked on an investment binge, eventually pulling along private sector investment as well. As the share of investment the GDP rose from 18.1 percent in 1973 to 25.0 percent in 1977, the growth rate of the economy reached its peak at 8.9 percent in 1975 and 1976.[20]

This drive was then sustained by a very costly external borrowing scheme. Just as the foreign exchange reserves were being depleted in 1975, the right-wing coalition government of Süleyman Demirel launched the so-called convertible Turkish lira deposit project, in which private firms were given exchange rate guarantees by the government for all the external loans they could secure. Under inflationary conditions where the domestic exchange rate was already perceived to be overvalued, this was a signal to the private sector to borrow abroad and finance its day to day operations at the cost of the treasury. In less than two years it became clear that the government was in no position to honor the outstanding external debt stock, which had spiraled from 9 percent to 24 percent of GNP.[21]

Just as striking as the behavior of the government was the willingness of the international banks, admittedly overflowing with petrodollars, to play along. It is clear that they did not pay much attention to the repayment capacity of the ultimate borrower when they agreed to provide loans under terms which must have seemed very attractive at the time. As foreign lenders began to lose their nerve early in 1977, the stage was set for a debt crisis.

In 1978 and 1979 Turkey found itself in its most severe balance of payments crisis of the postwar period. The IMF made three fundamental demands in return for rescheduling Turkey's outstanding debt and giving the green light for new credits: the implementation of a full-scale stabilization program including a major devaluation, extensive cutbacks in government subsidies, and elimination of controls on imports and exports. The Social Democrat-led coalition government of Bülent Ecevit was conscious of the costs to be borne by its political constituencies if these radical measures were adopted; at the same time it was too divided to implement any feasible alternative. As rising budget deficits were met with monetary expansion, inflation, which had been averaging 20 to 30 percent per annum earlier in the decade, jumped to 90 percent in 1979, and the government responded with various foreign exchange and price controls. Both investment and exports collapsed. The second round of oil price increases only compounded the difficulties. As oil became increasingly scarce, frequent power cuts hurt industrial output as well as daily life. Shortages of even the most basic items became widespread owing to the declining capacity to import and to the price controls. The economic crisis coupled with the continuing political turmoil brought the country to the brink of civil war.[22]

Perhaps the basic lesson to be drawn from the Turkish experience is that an ISI regime becomes difficult to dislodge, owing to the power of vested interest groups which continue to benefit from the existing system of protection and subsidies. To shift towards export promotion in a country with a large domestic market required a strong government with a long-term horizon and considerable autonomy. These were exactly the features lacking in a Turkish political scene characterized by weak and fragile coalitions during the 1970s. As a result, the economic imbalances and the costs of adjustment increased substantially. It then took a crisis of major proportions to move the economy towards greater external orientation.

AGRICULTURE AND MIGRATION

The agricultural sector reached the limits of available land in the 1960s and 1970s. From that point on, a shift had to be made from extensive to intensive agriculture. Increases in output began to depend on increases in yields through the intensification of cultivation and the use of improved plant varieties, along with increased inputs of chemical fertilizers, increased mechanization, and some expansion of irrigated lands. As a result, wheat yields increased by 70 percent and overall yields in agriculture increased by an unprecedented 65 percent during the period 1960–80 (see Table 5.2). The intensification was partly a response to market forces from both small and medium-sized producers, but it was also supported by the government policy of subsidizing inputs through favorable exchange rates and interest rates. The most important form of subsidy was given to chemical fertilizers whose prices were kept well below world prices in the face of rising petroleum prices during the 1970s.

After the frontier was reached, increases in output became more difficult and costly. The long-term trend rate of growth of agricultural output declined from 4 to 5 percent per year in the earlier decades to 3.5 percent in the 1960s and 1970s, although the actual figure varies according to the exact period chosen. The share of agriculture in the overall economy also declined substantially from 38 percent in 1960 to 25 percent in 1980. By the end of the 1970s, agriculture was no longer the leading sector in terms of contribution to total growth. Nonetheless, it continued to provide employment for more than 50 percent of the labor force (see Tables 5.1 and 5.2).[23]

Despite the slow-down in the rate of growth of output, the long-term performance of Turkish agriculture has been impressive. During the half century from the early 1930s until the end of the 1970s, agricultural output per person in the country increased at an annual rate of 1.6 percent and doubled for the period as a whole. This performance has enabled Turkey not only to increase per capita consumption but also to remain self-sufficient in foodstuffs, a rare achievement in the Middle East (see Tables 5/2 and 5/3 and compare with Tables 1/1 and 1/2 in Chapter 1). The availability of additional land until the 1960s was an important factor in this outcome. At least equally important, however, was the success of small peasant ownership and production supported by government policies.

Agrarian property relations continued to be dominated by independent peasant ownership, except in the Kurdish southeast where tribal nomadism gave way to rent-collecting landlords. This overall pattern made it more appealing for the politicians to use government programs as an electoral instrument. With the help of government manipulation of the intersectoral terms of trade, the incorporation of the rural population into the national market accelerated. The villages became important markets for textiles, clothing, and food industries, and gradually for consumer durables, radios, TV sets, and even refrigerators. Another important component of demand came for the domestically produced tractors whose numbers jumped tenfold in less than two decades, from 42,000 in 1960 to 430,000 in 1980 (see Table 5.2). Remittances from family members in Europe also contributed to this trend.

Patterns of rural to urban migration were strongly influenced by the strength of independent peasant ownership. The average migrant continued to have claims to some land in his village which was typically rented out or left to family members. More often than not, he came to the urban area with sufficient resources to build an instant squatter house (*gecekondu*, literally, 'landed at night') in an area already colonized by the migrants from his own province, or even his own village. After the initial move, the migrant and his family did not easily lose contact with the village. They returned during the annual vacation and regularly received supplies in kind, often as compensation for their claims to the land in the village. The average migrant thus served to expand the internal market to a greater extent than would have been possible had the urbanization process been characterized primarily by the migration of the landless poor.

Only a minority of the migrants found employment in the new industries, however. Instead, they faced a hierarchy of jobs as they arrived in urban areas. The unionized blue collar jobs were at the top of that hierarchy and thus out of the reach of a recent migrant. At the lower echelons were a variety of jobs in the informal sector with low pay, such as work as a day laborer or street vendor. Only in time did some of the migrants begin to move up this urban ladder. Most migrants chose to remain in the cities, however, although they often returned to their villages to help with the harvest.[24]

LIBERALIZATION AND INCREASING INSTABILITY DURING THE 1980s

Against the background of import and output contraction, commodity shortages, and strained relations with the IMF and international banks, the newly installed minority government of Süleyman Demirel announced a comprehensive and unexpectedly radical policy package of stabilization and liberalization in January 1980. Turgut Özal, a former chief of the SPO, was to oversee the implementation of the new package. The Demirel government was unable to gain the political support necessary for the successful implementation of the package, but the military regime that came to power after a coup in September of the same year endorsed the new program and made a point of keeping Özal as deputy prime minister responsible for economic affairs.

The aims of the new policies were threefold: to improve the balance of payments, to reduce the rate of inflation in the short term, and to create a market-based, export-oriented economy in the longer term, thus putting the economy on an outwardly oriented course, a sharp change of direction from the previous era of inwardly oriented growth and industrialization. Implementation of this package began with a major devaluation followed by continued depreciation of the currency in line with the rate of inflation, greater liberalization of trade and payments regimes, elimination of price controls, substantial price increases for the products of the state economic enterprises, elimination of many of the government subsidies, freeing of interest rates, subsidies, and other support measures for exports and the promotion of foreign capital.

Bringing about reductions in real wages and the incomes of agricultural producers was an important part of the new policies. The Demirel government had little success in dealing with the labor unions, and strikes and other forms of labor unrest, often violent, became increasingly common in the summer of 1980. But the military regime prohibited labor union activity and brought about sharp declines in labor incomes. Most observers agree that, without military rule, an elected government could not have carried out the January 1980 package to its conclusion.[25]

Improvements were obtained rather quickly on three fronts. The balance of payments improved as the external debt was rescheduled after negotiations with the IMF and the international banks, and fresh credit was obtained. The rate of inflation was reduced from 100 percent in 1980 to a low of 30 percent in 1983, and then fluctuated at around 40 percent, although it rose again to over 70 percent at the end of the decade. The doubling of exports within two years, and sustained increases thereafter, not only improved the balance of payments but also helped output levels recover from the initial impact of the stabilization measures.[26]

With the shift to a restricted parliamentary regime in 1983, Özal was elected prime minister as the leader of the Motherland Party, which he had formed. He launched a new wave of liberalization of trade and payments regimes, including unprecedented reductions of quantity restrictions on imports. These measures began to open up the existing ISI structure to competition for the first time. The frequent revisions in the liberalization lists, the arbitrary manner in which these were made, and the favors provided to groups close to the government created a good deal of uncertainty regarding the stability and durability of these changes, however. The response of the private sector to import liberalization was mixed. While export-oriented groups and sectors supported it, the ISI industries, especially the large-scale conglomerates such as the Koç group, whose products included consumer durables and automobiles, continued to lobby for protection. The government also introduced measures aimed at further liberalization of the financial system including virtually complete liberalization of capital inflows and outflows, and the introduction of foreign currency deposits within the domestic banking sector.[27]

From the very beginning, the program of January 1980 benefited from the close cooperation and goodwill of international agencies such as the IMF and the World Bank, as well as the international banks. One reason for this key support was the increasingly strategic place accorded to Turkey in the aftermath of the Iranian revolution. The Islamic revolution moved Turkey from its disadvantaged position in international politics, and it became an indispensable ally of NATO. Other reasons were the close relations between Özal and the international agencies, and the special status accorded to Turkey. For most of the decade Turkey was portrayed by these agencies as a shining example of the validity of the orthodox stabilization and structural adjustment programs they promoted, and enjoyed their good will. As far as the economy was concerned, this support translated into better terms for rescheduling the external debt and substantial amounts of new resource inflows. As a result, the foreign exchange constraint disappeared practically overnight and the public sector had less need for inflationary finance at home. These were undoubtedly vital ingredients for the success of the program.[28]

One area of success for the new policies was in export growth. Merchandise exports rose sharply from a mere $2.3 billion, or 2.6 percent of GNP in the crisis year of 1979, to $8.0 billion in 1985 and $13.0 billion, or 8.6 percent of GNP in 1990 (see Table 5.4). Turkey in fact ranked first in the world in rate of export growth during this decade. Equally dramatic was the role of manufactures, which accounted for approximately 80 percent of this increase. Among exports, textiles, clothing, and iron and steel products dominated. It is thus clear that the success in export growth was achieved by reorienting the existing capacity of ISI industries towards external markets. During this drive, exporters were supported by a steady policy of exchange rate depreciation, credits at preferential rates, tax rebates, and foreign exchange allocation schemes. The latter mechanisms amounted to a 20 to 30 percent subsidy on unit value, although their magnitudes gradually declined during the second half of the decade. It should be noted, however, that some of the reported increase in export volume during the middle of the decade was fictitious, due to over-invoicing designed to take advantage of the incentives.

The export drive also benefited from the war between Iraq and Iran, which provided a captive market for Turkey. Between 1982 and 1985, Turkish exports to the Middle East exceeded those to the European Community (EC), with Iran and Iraq emerging as the biggest markets. Thereafter, the earlier pattern re-established itself, and the EC once again became the main export market for Turkey. An econometric study by Robin Barlow and Fikret Şenses concludes that, from a longer-term perspective, the policy measures, especially the real exchange rate depreciation and export subsidies, and not the external demand conditions, emerge as the most important explanations for Turkey's strong export performance during the 1980s.[29]

Aside from export performance, however, the impact of the new policies on the real economy was rather mixed. Most importantly, the new policies were unable to mobilize the level of private investment necessary for long-term growth. In manufacturing industry, high interest rates and political instability were the most important impediments. Even in the area of exports, new investment was conspicuously absent; most of the increase was achieved with the existing industrial capacity. In the aftermath of financial and trade liberalization, foreign investments in banking, especially in foreign trade financing and investment banking, where the international banks have a competitive advantage, increased considerably. On the whole, however, the response of foreign capital to the new policies was not very strong, apparently for reasons similar to those affecting domestic capital.[30]

As a result, the growth performance of the economy was less than impressive. GNP increased at the annual average rate of 4.6 percent and GNP per capita at 2.3 percent during the 1980s. Moreover, these increases were only obtained at the cost of accumulating a large external debt which climbed more than fivefold from less than $10 billion in 1980 to more than $50 billion in 1990. These rates of growth are lower than those of earlier decades but in line with trends toward distinctly lower rates of growth in other parts of the developing world during the 1980s, with the notable exception of East and Southeast Asia (see Table 5.3).[31]

Another important area where the record of the new policies was bitterly contested was that of income distribution. From the very beginning, the January 1980 package set out to repress labor and agricultural incomes, and these policies were maintained until 1987 thanks to the military regime and the limited nature of the transition back to multi-party politics. Real wages declined by as much as 34 percent and the intersectoral terms of trade turned against agriculture by more than 40 percent from 1977 until 1987, although some of this deterioration took place during the crisis and high inflation years just before the 1980 coup (Table 5.5). The decline in household incomes was not as dramatic, however, as wage and salary earners in the urban areas attempted to compensate, as far as possible, by working longer hours and having other members of the household, including school-age children, find employment within the informal sector. Similarly, there was a shift in the countryside toward more intensive techniques and more labor-intensive crops in order to compensate for declining crop prices. Part of the benefits of wage and agricultural price repression was captured by net lenders through higher interest income. In addition, a new class of wealthy entrepreneurs emerged, based on exports and international construction projects.[32]

The new policies had been given much-needed support from two significant interventions in the early part of the decade: labor repression by the military and generous foreign capital inflows by the international financial institutions. These opportunities were not adequately utilized, however, to bring the state finances and the public sector under further control. With the transition to a more open electoral regime, the opposition began to criticize not so much the basic thrust of the policies but the arbitrary manner in which Özal often implemented them and the growing inequality of income distribution. As the political system became more competitive towards the end of the 1980s, the government resorted increasingly to old-style populism and lost much of its room for maneuver. Public sector wages, salaries, and agricultural incomes were raised sharply. Real wages almost doubled from their decade low point in 1987–1990 (see Table 5.5). In addition, an escalating war against the Kurdish guerrillas in the southeast began to take its toll. These trends, in turn, sharply increased the deficits and borrowing requirements of the public sector, which began to be financed by higher levels of internal and external borrowing as well as the printing of money. By the end of the decade, inflation had once again jumped to levels above 70 percent per annum. One important factor that reinforced the link between public sector deficits and inflation was the introduction of foreign exchange deposit accounts in 1984 as part of the policies of financial liberalization. By reducing the demand for domestic money, this measure increased the inflationary impact of the public sector deficit.[33] By the end of the decade, macroeconomic balances had sharply deteriorated. In these circumstances, the accumulation of a large external debt, increasing financial liberalization, and the open invitation to short-term capital flows made the system increasingly vulnerable to a balance of payments crisis.[34]

The agricultural sector, which continued to provide employment to about half of the labor force, was all but ignored by the military regime and the Motherland Party. The most important change for the sector was the virtual elimination of the subsidies and price support programs after 1980 which combined with trends in the international markets to produce a sharp deterioration in the sectoral terms of trade. As a result, the agricultural sector showed the lowest rates of output increase during the postwar era, averaging only 1.4 percent per year for the decade (see Tables 5.1 and 5.2). Agricultural output thus failed to keep pace with population growth for the first time in the twentieth century. One investment program which was pursued energetically by the government was the large South-East Anatolia Project, originally planned in the 1960s. It envisaged the construction of a number of interrelated dams and hydroelectric plants on the Euphrates river and the irrigation of 1.6 million hectares (4 million acres) in the plain of Harran, which would double the total irrigated area under cultivation in the country. Because the government could not reach an agreement with the downstream countries regarding the sharing of the water, however, the project was continued without financial assistance from international agencies.[35]

WELFARE AND DISTRIBUTION

Despite recurring crises and fluctuations, the Turkish economy has experienced reasonably high rates of growth averaging 5.7 percent per annum during the postwar era. Per capita incomes have increased at more than 3 percent per year, approximately tripling between 1947 and 1990 (see Table 5.3). Basic indicators of social and economic development have also shown steady increases. For example, calorific intake per capita increased by more than 50 percent,or about 0.7 percent per year, during the same period. By the end of the 1980s, per capita calorific intake in Turkey was well above the average for upper to middle income countries but still below that of the industrialized countries.[36] Similarly, life expectancy at birth rose from around 44 in 1950 to 65 in 1990 (see Table 5.1).[37] Part of this increase was due to the decline in rates of infant mortality from the exceptionally high levels of 160 per 1,000 live births until the late 1960s to 60 in 1990, even though this is still quite high in comparison to other industrialized countries.[38] Basic indicators for education have also registered considerable, but not exceptional, increases. Illiteracy rates at age 15 or older have declined from 55 percent for men, 86 percent for women and 72 percent overall in 1960 to 10 percent for men, 29 percent for women and 19 percent overall in 1990.[39] (For more detailed indices of social and economic development and a comparison with the indices of other countries of the region, see the Statistical Appendix at the end of this volume.)

The quality of information on how these gains in incomes and standards of living have been distributed is not very good. Nonetheless, it is possible to draw some general conclusions. A good place to begin is the persistently large productivity differentials between the agricultural sector and the rest of the economy. Calculations based on national income accounts show that the Kuznets' K ratio, which is obtained by dividing the production per capita in the non-agricultural sector by the production per capita in the agricultural sector, has been above 4 in Turkey throughout the postwar period. This gap has not closed despite considerable rural to urban migration because the productivity increases in the non-agricultural or urban sector have been much higher than those in the agricultural sector. Some caution is necessary in interpreting these figures, however. The existing estimates for the Kuznets' K ratio based on national income data tend to overstate the income differentials between the two sectors. Some of the measured difference in average productivity has been due to the inclusion of most women in the rural labor force but their exclusion in the urban areas. Higher taxation of the urban sector further reduces the gap between the agricultural and non-agricultural or rural and urban incomes. Nonetheless, the available estimates for Kuznets' K still suggest that average incomes are considerably higher in the urban areas, contributing to countrywide patterns of inequality in income.[40]

Within the agricultural sector, the evidence on land distribution confirms what has been argued earlier: there is a relatively equitable distribution of land especially outside the predominantly Kurdish southeast. Despite the limitations of existing estimates, it also appears that the Gini coefficient for the distribution of land has changed little since the 1950s. The degree of inequality of the distributions by holdings and by ownership also appears to be similar: while some large plots are now being cultivated by small and medium-sized tenants, some of the small plots have been consolidated into larger holdings with the spread of tractors and more recently by the entry of other machinery into agriculture.[41]

Within the non-agricultural sector, the absence of a uniform methodology and the changing assumptions of the different surveys or other indirect studies make it difficult to determine the temporal changes in income distribution. On the one hand, the Gini coefficients for income distribution calculated by a leading economist for both the agricultural and non-agricultural sectors, as well as the overall economy, have been remarkably stable from 1973–78 to 1983.[42] At the same time, there is a good deal of indirect evidence suggesting that income distribution within the non-agricultural sector became more unequal and that the gap between the agricultural and non-agricultural sectors increased considerably owing to high inflation followed by the stabilization and structural adjustment programs. Trends in two important indicators suggest that income distribution became more unequal from the late 1970s until the late 1980s. Both urban real wages and the intersectoral terms of trade between agriculture and the rest of the economy declined sharply between 1977 and 1987. Studies by Süleyman Özmucur based on national income accounts and other data also point to a sharp decline in the shares in national income of both agricultural incomes and non-agricultural wages and salaries during the same period. With the return of more open politics, however, both real wages and agricultural prices registered sharp increases after 1987 (see Table 5.5).[43]

Large regional inequalities are yet another dimension of income distribution in Turkey. Through the 1980s, the private sector-led industrialization remained concentrated in the western third of the country. Commercialization of agriculture also proceeded further in the western and coastal areas. In contrast, the eastern third of the country had lower incomes and was lacking in government-provided infrastructure and services, especially education and health. The development of tourism in the west, the deterioration of the terms of trade against agriculture, and above all, the rise of Kurdish insurgency in the south-east during the 1980s further increased the already large regional disparities, adding to the pressures for rural-to-urban as well as east-to-west migration. The large irrigation projects are expected to transform the south-east into a significant center of economic growth in the longer term. In 1990, however, these expensive projects remained years and if not decades away from completion.

In sum, income distribution in Turkey from 1960–1990 was characterized by large rural-urban and regional differentials. The available evidence also suggests that the distribution within the urban economy became increasingly more unequal than that of the rural areas. This pattern should also tell us a good deal about the distribution of the gains made in socio-economic and human indicators, such as life expectancy, health, and education during the postwar period.

Notes on Chapter 5

Full details of all sources are in the Bibliography

1 Pamuk, 'War, State Economic Policies and Resistance by Agricultural Producers in Turkey, 1939–1945,' pp 131–7.
2 Keyder, *State and Class*, pp 112–14; Boratav, *Türkiye Iktisat Tarihi, 1908–1985*, pp 63–7.
3 Thornburg, Spry, and Soule, *Turkey*.

4 Boratav, *Türkiye Iktisat Tarihi, 1908–1985*, pp 73–81.
5 Turkey, State Institute of Statistics, *Statistical Indicators*, 1923–1992; see also Table 5.2.
6 Hansen, *Egypt and Turkey*, pp 338–44; Keyder, *State and Class*, pp 117–35.
7 Hershlag, *Turkey*, pp 163–5.
8 Hansen, *Egypt and Turkey*, pp 344–6.
9 *Ibid.*, pp 344–8; Boratav, *Türkiye Iktisat Tarihi, 1908–1985*, pp 73–81.
10 Boratav, *Türkiye Iktisat Tarihi, 1908–1985*, pp 90–93.
11 Zürcher, *Turkey*, p 235; Keyder, *State and Class*, pp 135–40.
12 Hansen, *Egypt and Turkey*, pp 352–3; Barkey, *The State and the Industrialization Crisis in Turkey*, ch. 4; Öniş and Riedel, *Economic Crises and Long Term Growth in Turkey*, pp 99–100. The political factors behind the introduction and evolution of development planning are discussed in Ahmad, *The Turkish Experiment in Democracy, 1950–1975*, ch. 10.
13 Hirschman, 'The Political Economy of Import-Substituting Industrialization in Latin America,' pp 1–26.
14 For more detail on the export performance of manufacturing industry, see Table 5.4 and later parts of this chapter.
15 World Bank, World Development Report, various years. Also Çeçen, Doğruel, and Doğruel, 'Economic Growth and Structural Change in Turkey, 1960–88,' pp 37–56.
16 Hansen, *Egypt and Turkey*, pp 360–78; Keyder, *State and Class*, ch. 7; Barkey, *State and the Industrialization Crisis*, ch. 5.
17 Paine, *Exporting Workers*; Keyder and Aksu-Koç, *External Labour Migration from Turkey and Its Impact*, Report No. 185e.
18 Turkey, State Institute of Statistics, *Statistical Yearbook*, various years.
19 Barkey, *State and the Industrialization Crisis*, pp 109–167.
20 Celasun and Rodrik, 'Debt, Adjustment and Growth,' *Developing Country Debt and Economic Performance*, vol. 3, pp 641–55.
21 *Ibid.*, p 639.
22 Keyder, *State and Class*, ch. 8.
23 The official labor force statistics tend to exaggerate the share of the agricultural sector in overall employment by including peasant women working in the family farms but excluding urban women who work within the household.
24 Keyder, *State and Class*, pp 156–63.
25 For example, Aricanli and Rodrik, 'An Overview of Turkey's Experience with Economic Liberalization and Structural Adjustment,' pp 1343–50.
26 *Ibid.*; Hansen, *Egypt and Turkey*, pp 383–420; Çeçen, Doğruel, and Doğruel, 'Economic Growth and Structural Change in Turkey, 1960–88,' pp 44–52.
27 Öniş and Webb, *Political Economy of Policy Reform*, pp 33–8.
28 Aricanli and Rodrik, 'An Overview of Turkey's Experience with Economic Liberalization and Structural Adjustment.'
29 Barlow and Şenses, 'The Turkish Export Boom,' pp 111–33.
30 Boratav, Türel, and Yeldan, 'Dilemmas of Structural Adjustment and Environmental Policies under Instability,' pp 373–93; Aricanli and Rodrik, 'An Overview of Turkey's Experience;' Öniş and Riedel, *Economic Crises*, pp 83–90.
31 One important problem in the utilization of the national income accounts in this as well as earlier periods is the existence of a large and growing underground economy in Turkey which has not been included in the national income accounts. Various studies estimate its size at the end of the 1980s at 30 to 50 percent of the GNP.

32 Celasun, 'Income Distribution and Domestic Terms of Trade in Turkey, 1978–1983,' pp 193–216; Boratav, 'Inter-Class and Intra-Class Relations of Distribution Under Structural Adjustment.'

33 Rodrik, *Premature Liberalization, Incomplete Stabilization*, pp 10–20.

34 Öniş and Webb, *Political Economy of Policy Reform*, pp 38–47. Also Waterbury, 'Export-Led Growth and the Center-Right Coalition,' pp 127–45.

35 Mutlu, 'The Southeastern Anatolia Project (GAP) in Turkey,' pp 59–86.

36 Hansen, *Egypt and Turkey*, pp 281–82.

37 In recent years female life expectancy has been five years longer than that of males; World Bank, World Development Report, 1994.

38 Turkey, State Institute of Statistics, *The Population of Turkey*, pp 37–41.

39 World Bank, World Development Report, various years.

40 The calculations are based on national income accounts published in Turkey, State Institute of Statistics, *Statistical Yearbook*, various years; see also Derviş and Robinson, 'The Structure of Income Inequality in Turkey, 1950–1973,' pp 285–7 and 497–9.

41 Hansen, *Egypt and Turkey*, pp 275–80 and 495–501.

42 Merih Celasun has estimated that the Gini coefficient for the overall distribution has changed from 0.50 in 1973 to 0.51 in 1978 to 0.52 in 1983; 'Income Distribution and Domestic Terms of Trade in Turkey, 1978–1983'; Derviş and Robinson, 'The Structure of Income Inequality in Turkey, 1950–1973.' For an overview of the available evidence see Hansen, *Egypt and Turkey*, pp 275–80 and 494–504.

43 Özmucur, *Gelirin Fonksiyonel Dağılımı, 1948–1991*.