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IN TURKEY

ORTA DOĞU TEKNİK ÜNİVERSİTESİ
MIDDLE EAST TECHNICAL UNIVERSITY

PLANNING IN TURKEY

(Selected Papers)

edited by
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PLANNING IN TURKEY

To frustrated planners
all over the world—

PREFACE

As the first few papers of this volume make it clear, the concept of economic planning or programming to attain certain desired ends is not a new one for Turkey, and the earliest attempts date from the Thirties. It might therefore seem a little surprising that Turkish economic literature has been singularly lacking in any systematic and prolonged discussion of the subject, with the first trickle of writings dating only from the early Sixties This delay finds a partial explanation in the fact that the various development programs launched before 1960 were no more than 'guides for action' for the respective governments concerned, and neither their preparation nor their execution had been accompanied by open debates, in professional circles or in front of public opinion at large

To the layman, therefore, as well as to the professional social scientist, the planning experience undertaken during the military rule following the deposition of the Democratic Party in 1960, appeared as a totally new experience

At the time of its preparation, the First Five-Year Development Plan seemed to express in operational terms the desire of an important section of public opinion for a rapid, equitable and orderly economic development, with the consequence that the preparation of the Plan became a task in which a considerably large number of experts participated Discussions on the various aspects of the document, as well as on the more general implications of the concept of planned development, took place openly, and received wide coverage in the Press. The importance of this 'favourable milieu for discussion' — a direct result of the new balance of power brought

about by the 'post-27th of May' regime and the new Constitution — cannot be overemphasized.

Several other, and more technical, conditions were required, however, before the individual articles, essays and comments which appeared in various places could lead to the kind of more systematic discussion envisaged in this volume. A minimum of time was necessary, to permit people who had been involved in the preparation of the Plan to take their distances vis-à-vis their work, and place it in a perspective and framework favourable to objective discussion The results of the implementation of at least the first few years had to be reviewed, before anything operationally meaningful could be said Finally, since a purely 'Turkish' discussion on the subject would have had only limited usefulness as compared to a more comprehensive one, it was necessary to bring about the material conditions suitable for the preparation of a publication accessible to a larger public We feel that the performance of this latter task by the Middle East Technical University falls entirely within the bounds of the international spirit in which this institution was created.

It will be clear, on reading the various papers, that the authors have been interested both in theory and in policy problems On the policy side, two kinds of questions are discussed: problems relating to existing institutions and policies, and projections about the difficulties of future practice. Topics such as the structure of the State Planning Organization, the practical issues raised by the specific features of public enterprises, etc , fall under the first heading; and at the same time an analysis of such problems permits projections about the necessary scope and depth of fiscal and financial reforms and measures, of land reform, of administrative reform, and about the modifications needed in existing agencies and procedures for a more successful implementation of future plans.

The theoretical pre-occupations of the authors are mainly centered around a few fundamental problem-areas The basic nature of economic planning and an evaluation of the planning activities in a mixed economy is one such area It will be seen that several of the authors, including some former planners, actually question the feasibility of an «indicative plan», at a fundamental, if not definitional, level When extended along more technical lines, this problem becomes one of deciding whether the optimum use of resources is theoretically possible in a mixed economy, and this is also discussed. The problems raised by the use of input-output techniques in the

underdeveloped economy seem to constitute a second point of theoretical interest, and these are dealt with from various angles Finally, the relationships between foreign trade, investment, savings, growth, capital-output ratios, etc , in short, all the problems raised by the Harrod-Domar model, receive considerable attention

While the book was not 'made to order', these and several subsidiary but no less important problems all fit into the general framework of the study as it was originally conceived In terms of specific papers and topic areas, the study may be said to run as follows·

The papers by E Gunçe and A. Sonmez discuss the past and recent background of economic planning in Turkey, and try to place the First Five-Year Plan in its socio-economic context, also raising several points about the basic nature of planning in general and Turkish Planning (both of the pre- and post-1960 varieties) in particular Against this background, O N. Torun discusses the establishment, structure and functioning of the Turkish State Planning Organization In a brief but extremely informative paper, J. Tinbergen discusses the methodology of the First Five-Year Plan. The concise framework which he sets is then filled, in some detail, by the two papers by Y Kuçuk on the macro-model and sectoral programming activities of the Plan His remarks on inter-industrial relations prepare the way to a specific study of the agricultural sector, which still predominates in the Turkish economy. D Kayran's paper on this subject is followed by studies on the different problems raised by this initial structure. H Çetin examines the mutual interdependences between the national income projections and the development of the foreign trade situation. K Bulutoğlu and L. Tenker discuss the financial and monetary aspects of the growth problem, respectively The «private sector» and the «state economic enterprises». constituting the 'come-what-may Siamese twins of the mixed economy', are discussed in two separate papers by T. Öngut and R. Hammaş. M B Kiray examines certain aspects of the social planning effort of the First Five-Year Plan, and I Tekeli sets forth the contents of regional planning activities, raising some basic issues regarding the interdependences between the national plan and regional plans. Finally, N Olçen reviews the implementation of the Plan, in terms of both the implementation itself, and the various techniques utilised to follow up and evaluate it.

On a critical re-appraisal of the present volume, the omissions in the final selection seem quite difficult to justify both as far as certain topics and as far as certain potential contributors are

concerned. The lack of a comprehensive and detailed survey of the structure of industry is hardly excusable, our partial consolation being that the basic points on the subject are made elsewhere (Cf. esp the papers by Y. Kuçuk). In the cases of the construction industry, employment, education and manpower planning, not even such partial amends can be made On the other hand, without begging the question of whether they would have written on these points or on topics already treated here by others, it is painfully obvious to us that many more of the 'first planners' could have made very significant contributions to the study. The names of Ş Orel, the first Under-secretary of the S P O , Dr. A. Karaosmanoğlu, the first Head of the Economic Planning Department, and Dr. N Erder, the first Head of the Social Planning Department should be specifically mentioned in this connection. We are sure that the relevant personal and general circumstances will have evolved in a manner that will permit a future study to remedy these and other deficiencies.

Our thanks go to many persons, for varied reasons, but with equal warmth The study was made possible through a grant from the A I D We thank them, and also E. Yener who handled financial matters S Vaner, Ş. İnan and Ş. Orei helped, with documents and comments. Professor J. Tinbergen and Dr. J.G M. Hilhorst were extremely helpful in several discussions Professor D. Y. Demirgil (former Assistant Head of the Economic Planning Department of the S P.O. and thus one of the 'first planners') and Ó. İnanç, both of the Department of Economics and Statistics of the F.A S , were 'there' with constant encouragement and guidance throughout the work—the inevitability of their assistance only adds to its value. On the other hand, we thank all the authors for their close co-operation and for the understanding with which they received the various (hopefully justified) blows dealt to their respective English styles by what must have seemed extremely capricious editors. (Any linguistic and other non-substantial errors and deficiencies that may have remained, we regard as our own.) Y. Kuçuk should be singled out for some particularly useful suggestions. S. İlkorur, of the Ministry of Reconstruction and Resettlement, was a very helpful guide around some thorny points Finally, our thanks go to Miss H. Jedelhauser, for her extreme patience and skill in typing a most 'complicated' manuscript and to the personnel, and especially the type-setters, of the G.I.M. Press for their care and patience with a difficult job. We hope we have not failed them.

The Editors

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I

EARLY PLANNING EXPERIENCES IN TURKEY

by
E. GÜNÇE *

INTRODUCTION

The aim of this paper is to survey Turkish planning experience from a critical viewpoint. In the first part we shall try to analyse the general conditions of the country before the actual planning experiences started. This part will eventually try to answer the question, «Why was planning adopted?». The second part of the paper will be devoted to a relatively detailed analysis of the plans which were prepared in the 1932 - 1947 period. Problems related to planning techniques, financing methods, and implementation, will be given due consideration. Finally, an attempt will be made to evaluate these early planning experiences in the light of the economic and, to a certain extent, political background of the country.

The author is well aware of the fact that the word «planning» calls different images to different minds, being no different, in this respect, from the words «democracy», «socialism», «economic development», and the like Since meaningful discussions can only be carried out on the basis of concrete definitions, we must attempt to put forward our understanding of the term «planning» and of some related concepts such as «development», «decision-making» etc., also

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indicating what we do not mean by these terms, whenever confusion seems probable.

Planning has had its first formulation in the sphere of development. As such, it implies a criticism of a spontaneous development and even questions its possibility. Thus planning may be conceived of as a rational struggle against every natural or social force which impedes development. It further means that the will of the organized society will supersede the uncontrolled working of natural and social forces. This point constitutes the philosophical basis of planning. And since nature and society present themselves in the form of compact «enemies» of planning if they are left to operate according to their own logic, so to speak, they must also be handled in a compact, coherent, and overall fashion.

This struggle of organized society against uncontrolled natural and social forces assumes two forms: that of increasing the productive forces, and that of changing the production relations, both imposed by the past development of society. Although closely interlinked, the first form of struggle is primarily waged against nature, and the second against social relations that have come to impede the development of the productive forces The problem here is not merely to realize a change in quantity, but also a deep-rooted change in kind

The word planning is also used in the context of «growth-planning». Here, efforts seem to be directed at achieving certain quantitative targets without making any drastic changes in the existing social system. Planning in this sense, need not be an overall system of interventions. The origins of this planning concept are to be found in the Keynesian adjustments to secure a longer life to a capitalist society Whether this kind of planning can solve the problems it is meant to solve is a question which lies beyond the scope of the present paper. It may be pointed out, however, that this kind of growth planning may well prove to be rather inadequate and even futile, as the task for which it has been conceived is magnified with the growing crisis of capitalism.

We shall accept the term planning in its first sense, i.e., as a coherent strategy for a struggle waged against the spontaneous working of the natural and social forces of a given society, with a view to development. The term «development» is understood not as the physical growth of the wealth and income of a society that would retain its qualitative characteristics, but in the sense of a substantial

change, a complete transformation in the existing social system. Anything short of this is to be considered as a false image of development, designed to deceive people.

The author is also keen on giving a clear sense to the term «decision-making» in relation to planning, in order to avoid unnecessary confusion To understand the nature of planning one must have a fairly clear answer to the question: «Who makes the decisions, on whose behalf, and in what way?». Since a decision always implies choice it can never be neutral; hence, it is meaningless to assume its impartiality. This is a **fortiori** the case for decisions related to planning—a process which is meant to change certain basic characteristics of the social system. Since some people clearly stand to gain from these decisions while others will be worse off, it is best to recognize this facet of decision-making openly, instead of clouding the issue with a romantic outlook based on Pareto-optimum type considerations

There are, of course, certain technical aspects of decision-making such as the maximum amount and most systematic kind of knowledge on the subject, the estimation of the possible effects, the feasibility of decisions, etc The « in what way» clause of the decision-making question above, covers these technical aspects The main point, however, remains the question, «Who makes decisions, on whose behalf?»; and these are the elements that should be analysed before any valid evalution can be undertaken of the decision-making process in a planning effort.

This somewhat long but quite necessary emphasis on terminology will possibly be considered as being too frank for a paper written on a technical topic For it is already a tradition in economic literature that the jargon used should be incomprehensible, at least for the layman. We consider this scholastic tradition as one of the forces of society that works against development. As we have said earlier, we have also tried to avoid a loose and subjective use of terminology, that can only lead to confusion. If this introduction increases the chances of correspondence between the writer and the reader it will have accomplished its job.

I. THE PRELUDE TO PLANNING

Turkey was declared a republic in October 1923. Before the republic was established, however, another choice with far-reaching implications had already been made: liberalism. In March 1923, a conference held in Izmir of different classes and strata of the population, laid down the essentials of the economic strategy which was

to be implemented in the coming years. Semi-official in character, the conference should be considered as a starting point and should be duly studied, to help the analysis of the events and of the legislation that followed An examination of this legislation reveals clearly the logical and deliberate steps taken as part of the economic philosophy of an emerging state

The basic principles adopted at the Izmir Economic Congress might be summarized as follows:

a) Promotion of legislation for the encouragement of industry, and particularly amendments in customs tariffs for the protection of domestic industry;

b) Lower rates in land and sea transport for domestic products;

c) Creation of credit facilities for industrialists (establishment of industrial banks, etc);

d) Extension of technical instruction and training of engineers for industry.[1]

In actual fact, the story of the strategy for economic development mainly through domestic private enterprise starts even earlier in 1913, when a law was passed for stimulating domestic industry, mainly by «raw material imports free of tariffs» Due to wars and «capitulations» however, it had not been operational; and it was this same law which was resuscitated in 1924 with some minor amendments, until a new Industrial Encouragement Act came to replace it in 1927.

Since the point briefly made above (and that will be elaborated below) is that the administrators and the founders of the republic were basically pro-capitalist, it would not be amiss to review some conflicting opinions on the economic development strategy of the early 1920's, in order to be certain of reaching a balanced judgement on the question

One very famous view about the new republic's general economic strategy is based on Mustafa Kemal's attack on capitalism and imperialism, who had stated in one of his speeches that they were against «capitalism that has always wanted to swallow us and against imperialism that wanted to destroy us »[2]

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1 H. Derin, **Türkiyede Devletçilik**, Istanbul 1940, p 80, Z Y. Hershlag, **Turkey: An Economy in Transition**, The Hague, 1958, pp 61-62.

2 Speech by K Atatürk, dated December 1, 1921

Capitalism and imperialism have somewhat more definite meanings today As far as Mustafa Kemal's speech is concerned, one wonders whether he used the terms in any definite sense. Did he, for example, understand imperialism as Lenin did? Or did he have in mind something like the aggressive policy of a state which is not necessarily capitalistic? Whatever may be thought in this connection however, it is clear that the leader of the new regime was against capitulations and foreign economic as well as political intervention in Turkish domestic affairs

Nevertheless, when we look at the general atmosphere of the period, we see that nobody among the leaders of the regime was really against the rules of the capitalist economy. They all favoured and encouraged the «honest» foreign capital to come and invest. It seems that not even an Independence War, waged against a power which had been supported by the big imperialist countries, could change the minds of the leaders of the «Anatolian Revolution» The reason for this attitude was probably the fact that they could think of no substitute for the capital accumulated abroad; in fact, they did not have a sound grasp of the economic phenomena. An ordinary bank-clerk was to play the part of economist-architect for many years, it is hoped that the level of the economic thought of the period will emerge clearly from the account on the following pages

Another celebrated view is that the choice of strategy in the wake of capitalism was not a deliberate choice at all Some people agree that the choice was a pro-capitalist one, but they either immediately question its having been made on purpose or they prefer to preserve silence on this point. However, even a cursory review of the situation is sufficient to show clearly that the choice was a deliberate one, and made in favour of capitalism, regardless of terminological disguises such as «free enterprise», «liberalism», «liberal enterprise», etc

The naive character of the economic and financial legislation of the 1920's in Turkey must not mislead one into thinking that a certain logical sequence of a deliberate set of actions did not exist.

Following the revival, in 1924, of the 1913 Law concerning the exemption from duty of raw materials, a Bank for Industry and Mining was founded in the same year, by a special Act. The aim of the bank was to help establish industrial institutions and to secure commerce and credit facilities for them. According to the Act, certain industrial institutions of the State were to be placed under the

administration of the bank on a temporary basis The bank would secure the necessary credits for the owners of mines and industrial organizations Among the assets of the bank were former government property and special grants from public revenues

In the same year the «İş Bankası» (Business Bank) was established. This was legally a private credit institution. Its main task can be formulated as assistance in the creation of a Turkish capitalist class In the beginning its nominal capital amounted to 1 million TL., with a State participation of 58 per cent.

Perhaps the most important document of the pre-étatist period is the Industrial Encouragement Act of 1927. Article 1 of the Law is quite interesting in its definition of the kind of enterprise which was encouraged: «For the purposes of the present law, industrial enterprises are plants devised, permanently and periodically, for **mass production** with the assistance of machines, tools, or mechanical equipment, in the processing and appreciation of all or a part of goods.»[1]

Enterprises were divided into four categories and only the first category, comprising those plants with at least 10 H.P. motors, and 1500 work days annually, would enjoy all the facilities and privileges granted by the Law, the other three categories being granted only some of them.

Mines were also covered by the Law: they were divided into two categories according to their economic structure and with their respective rights The first category consists of the large-scale and relatively higher-technology mines which were granted greater privileges.

Those industrial establishments fully benefiting from the Law would be granted land of up to 10 hectares, if necessary, the land might be expropriated for this purpose by a special law, or compulsorily purchased from local authorities

Certain enterprises might be exempted from telegram and telephone charges on lines between various buildings of the enterprise, or even between them and other establishments.

The bonds and securities issued for the purpose of establishing industrial enterprises would be free of stamp duties

The materials needed for the construction of the enterprises and not available domestically, would be imported without customs duties.

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3 For an English summary of the Law cf Hershlag, op cit, pp 62 - 64

Such machinery, equipment and building materials would also be granted a reduction of 30 per cent in railway and sea transport rates. This reduction could also be extended to apply to other products and raw materials by special government decrees. Moreover, a subsidy of up to 10 per cent of the annual value of output might be granted to the enterprises by a special government decision. The Government might also issue permits for reducing the prices of salt, alcohol and explosives, or for granting special premiums.

Government institutions, municipalities, companies and enterprises benefiting from the law, were obliged to purchase the products of the encouraged enterprises in preference to foreign products, provided that local quantity and quality were adequate, and that the price of the local product did not exceed import prices by more than 10 per cent.

The program does not require any elaborate commentary. Suffice it to point out that five years later, in 1932, out of the 1473 enterprises which enjoyed the benefits of the Law, only 342 had been established before 1923[4] Turkish capitalism was blossoming nicely.

Another set of interventionist policy measures can be observed in the field of government monopolies, among which are the tobacco and related articles monopoly established in 1925 and the alcohol and spirits monopoly established in 1926 to be granted to a Polish company Less than a year later in 1927, however, the government re-established this latter under its own administration. Other monopolies were: Salt (started in 1862), Explosive materials (started in 1876), Matches and Firestone, and Oil and Fuel (both established in 1926), Insurance (established in 1927), Opium and Derivatives (established in 1933), and the P.T.T services Certain other monopoly rights were granted to the Turkish Red Crescent Organization in order to secure the necessary funds for this charity establishment.

Another series of special privileges were observable in some public utilities and other public institutions, which were run as semi-monopolies. These privileges were in Sea-transport, Railway-transport, Air-transport, and the National Lottery. Gradually however, these too assumed the status of actual monopoly.

With all these privileged state institutions, should not one reconsider the judgement given above about the capitalistic strategy intended by the administrators of the emerging state? Not at all, for

4 İstatistik Yıllığı, 1942 - 1945 and Hershlag op. cit., p. 64

the regular public revenue sources and measures taken to increase them did not in any way contradict the general strategy. In the light of the above legislation, one could formulate the situation as: more revenue, and thus better facilities to encourage the national bourgeoisie which badly needed — and still needs — systematic support from the government.

An additional reason for monopolies can be traced to military and national prestige considerations, indeed, this is perfectly understandable in a country where the past century had brought a great many mishaps which had injured the country's pride substantially. A big newspaper headline such as «Foreign Companies Are Nationalized. Government Considers Turning Them Into State Mononopolies» was a shadow-victory desired for many years

A great handicap of the new republic was the **fait accompli** with which it was faced through the Lausanne Treaty of 1923 The main points treated in the terms of peace[5] were:

1 Abolition of the Capitulations, and the problem of foreign concessions;

2. The settlement of the Ottoman Debt;

3 Customs tariffs,

4. Occupation expenses and war reparations;

5. Transfers of populations (negotiated separately between Turkey and Greece but included in the Treaty);

6. The Mosul question.

Today the Treaty reminds the average intellectual primarily and sometimes solely of the item on capitulations and foreign concessions, although items 2, 3 and 4 are just as important, if not more.

Item 3, in particular, proved to be of great economic significance since this question of customs tariffs prevented the Government from taking independent action on matters of fiscal policy, implementation, balance-of-payments, and foreign currency and export-import controls. According to the Treaty, as a matter of fact, Turkey would be obliged to keep the customs duties on the goods of the signatory countries[6] at the level of the Ottoman customs tariffs of September 1, 1916. This obligation was of five years duration, and during these five years, the government was unable to develop a foreign trade policy in conformity with the needs of the country.

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5 See Heishlag, op. cit., pp 17 - 30

6 Turkey, Britain, France, Italy, Japan, Greece, Roumania, and Yugoslavia

Government income from customs lagged behind its potential level, and of course a trade deficit persisted until the expiration of the agreement in 1929

On the other hand, anticipating the termination of the clause, the importing merchants stepped up their orders considerably during the year 1929 and thus caused the greatest deficit until then, as shown in **Table 1** below:

TABLE 1

TURKISH FOREIGN TRADE, 1923 - 1929

In million TL.

Year	Imports	Exports	Balance of Trade (Deficit)
1923	145	85	60
1924	194	159	35
1925	242	192	50
1926	235	187	48
1927	211	158	53
1928	224	174	50
1929	256	155	101

Obviously, a country which has no word in shaping the most crucial part of her foreign trade could not do much in the field of industrialization, especially if the competitors are the «old foxes» of the world market.

So far we have tried to give a broad outline of the pre-planning period in Turkey, noting the main events and the constraints imposed by the Lausanne Treaty A couple of examples of Turkish economic thinking of the Twenties will help to fill in at least some of the details, and thus complete the story of this period

Economic thinking in this period is very inadequate and strange indeed. Prime Minister İsmet Pasha (İnonu), for example, said in 1928

«If we could close the annual work balance of the country with a small but reasonable profit (sic), we might consider this a turning point» [7]

7 **İsmet Paşa'nın Siyasi ve İçtimai Nutukları (1920 - 1933)**, Ankara, Başvekâlet Matbaası, 1933, s 183, cited in Korkut Boratav, **Türkiye'de Devletçilik, 1923 - 1950**, Türk İktisadi Gelişmesi Projesi No 16, S B F Maliye Enstitüsü yayını, Ankara, March 1962, p 44

In criticising the government's railway policy, Mr. A. Ağaoğlu, the main theoretician of the opposition Free Party (Serbest Fırka) argued that «we import materials from Europe to construct railways Europe gets the benefit of it.»[8] As Mr Boratav suggests, Mr. Ağaoğlu seems to think that no benefits are involved for the importing country: an original theory in foreign trade.

The Republican Party program adopted in 1931 sets a hard-to-break record of slipshod thinking when it argues that «in economics mobile capital is important The only source of normal capital is national labour and savings »[9]

A member of Parliament, Mr A Remzi, questions these concepts· «What does mobile capital stand for? Normal capital is also ambiguous How can one classify capital as abnormal and normal?»

Mr Refik Şevket speaks on behalf of the commission that prepared the program in question. «Mobile capital means circulating capital. Normal capital stands for the national capital What is meant is the capital derived from our own national resources Any capital beyond this is abnormal».

Although they were naive in the field of theoretical economics, however, the administrators knew very well what steps should be taken in forming the core of Turkish capitalism, and acted accordingly until the famous «étatism» started The lack of economic understanding would be admitted indirectly only much later, when the very same people would start lamenting the «underdevelopment» of the country However, this would be preceded by the «étatism» experiment, to which we must turn now

II. ETATISM AND PLANNING

Since planning and étatism have been related in Turkey from the beginning, and since the early planning effort seems to have followed directly from the doctrine of «étatism», it seems necessary to study this latter in some detail Its originator, Kemal Atatürk, describes étatism in the following words:

«Turkish étatism is not a system translated from the socialist theories which have been developing since the nineteenth century

8 Ahmet Ağaoğlu, **Serbest Fırka Hatıraları**, Nebioğlu Yayınevi, İstanbul, undated, p 117, cited in Boratav, op cit., p 44

9 This remark and a more detailed account of the subsequent discussion of which some extracts are given above can be found in Boratav, op. cit., pp 45 - 46

Rather, it is system that emerges from the specific needs of Turk. .'; a system peculiar to Turkey.

«The meaning of étatism for us can be explained as follows: our aim is to consider private enterprise and individual efforts as the basic principle, without neglecting the fulfillment of all the needs of this great nation, for which almost nothing has been done so far. Therefore the State should be granted the right to handle the economy for development purposes

«The road we follow is obviously a different one from liberalism.»[10]

Prime Minister İsmet İnonü describes the main purposes of étatism as follows·

« a policy of étatism in economics is of necessity primarily for defence purposes. To bring to an end the neglect of centuries, to save the country from lawless destruction and to establish a powerful state to deal with the difficulties of our times, it is surely necessary to protect the order from subversive elements.»[11]

As for the sources of étatism, one observes that there is widespread agreement among the different commentators They agree, for example, that the main cause for étatism was the failure of private enterprise to secure development at home, and that the Great Depression which shook the capitalist world had proved the failure of the private enterprise economy to run the society smoothly. They further agree that the negative effects of the Great Depression deteriorated the economic situation of Turkey, as can be followed from **Tables 2** and **3** below:

TABLE 2

TURKISH FOREIGN TRADE, 1929 - 1935

In million Tl.

Year	Imports	Exports	Balance of Trade Deficit (—) or Surplus (+)
1929	256	155	—101
1930	148	152	+ 4
1931	126 6	127 2	+ 0 6
1932	86	101	+ 15
1933	75	96	+ 21
1934	87	92	+ 5
1935	89	96	+ 7

10 İktisat Vekâleti Sanayi Ticaret Heyeti, **İkinci Beş Yıllık Sanayi Planı**, Ankara 1936, p 1 (Preface to the Second Five Year Industrialization Plan).

11 İsmet İnonü, «Fırkamızda Devletçilik Vasfı» **Kadro**, Ekim 1933, p 4, (**Kadro** review, October 1933)

TABLE 3

PUBLIC EXPENDITURES, 1929 - 1935

In million TL.

Budget Year	Expenditures
1929 - 30	214 5
1930 - 31	210 1
1931 - 32	181 9
1932 - 33	174 0
1933 - 34	173 6
1934 - 35	202 1

Source for Tables 2 and 3 Hershlag, op. cit., p 75 ff.

As is seen from the tables, Turkey's immediate reaction to the Depression was to decrease the volume of her international trade and public expenditures Taking this into consideration, commentators generally draw the conclusion that liberalism had thus lost its appeal for the Turkish administrators They also remark that the successful Soviet experiences had been another source of inspiration for the Turkish decision-makers According to these commentators, the abolition of the fetters imposed by the Lausanne Treaty in the field of customs duties, together with some other facilities which were non-existent just after the war-years, led Turkey quite naturally to étatism

In our view, all these considerations are valid, but, in fact, miss the basic point which is that Turkish étatism was put forward as a bulwark against socialism It is, in this sense, a crude form of the Keynesian policy measures against the crises of capitalism; since the weak private enterprise sector was not a sound quarantee against the threat of socialism, it had to be supported by the use of social overhead capital and the creation of external economies for firms Neither the Republican Party administration nor the Government per se ever claimed for the public sector anything more than an auxiliary function to the private enterprise. The Republican Party Program, for example, clearly accepted the basic role of the private sector in 1931.

«Although considering individual enterprise and effort as a basic principle, we desire to have the Government take an active interest, especially in the economic field »[1]

12 C H.P. Program, Istanbul, Devlet Matbaası, 1931, pp. 11 - 12, Art 1, clause ç, cited in Boratav, op. cit, p 33

To round up the list of factors leading to increased State intervention, one must consider also the low agricultural prices, the low level of wages, and the strict prohibition of the right to establish trade unions and the right to strike, which are all characteristic of the Thirties in Turkey. The construction of railways, schools, hospitals, dams, harbours, highways etc. was all to be handled by private contractors Turkish business magnates such as Mr. V. Koç, Mr. E. Sazak, Mr N. Demirağ, etc. are the products of this era. This growing class was to be a candidate for full political power as well, and was to get it in 1950. Thus the Republican Party was helping to create the conditions of her own defeat through her étatist program.

In brief, Turkey liberated herself from **laissez faire** liberalism on the grounds of its inefficiency and weakness, to establish a guided and supported free enterprise system Comments that étatism stood somewhere between socialism and **laissez-faire** liberalism are superficial analyses It was nothing but a kind of vitamin-treatment for the immature Turkish private enterprise.

The concept of planning was not a completely new and strange idea for most of the top-level Turkish administrators. Having been successful staff officers in the past, they were naturally inclined towards any kind of planned action Incidentally, this attitude of the military towards planning was to be re-observed after the 1960 **coup d'état.**

The above remarks are meant to convince the reader of the necessity of questioning the ideas of conventional commentators on Turkish étatism and planning. The Soviet aid offered during the Thirties in the form of 8 million U S dollars' worth of equipment, researchers, engineers, skilled workers, etc., to help establish certain factories, is certainly a different thing from the so-called «Soviet impact» on Turkish étatism and planning, which is in fact non-existent. Nor should the term «Five Year Plan», referring to the two programs drawn up during the étatist period, and which shall be reviewed below, lead us to confuse the real with the imaginary.

1. The First Five-Year Industrialization Plan

The First Five-Year Industrialization Plan (that we shall refer to as the F.F.Y.I.P.) was drawn up in 1932 and approved by the government on January 9, 1934. Its actual implementation started

in May, 1934. Although it was named the «First Five-Year Industrialization Plan», its macro-target can be summarized as: the augmentation of the production of consumer goods— so far imported to a large extent— by relying mostly on the raw materials available at home. The production of producers' goods, the creation of employment for workers and the utilization of the excess capacity of railways, ships etc were all aims of secondary order and importance. Tables 4 and 5 below summarize the F.F.Y.I.P.'s envisaged overall effects on the Turkish economy:

TABLE 4

THE F F Y I P BASIC INVESTMENT TARGETS

		In thousand TL.
1	Funds to be allocated to the realization of the F F Y.I P	45 000.—
2	Funds to be spent at home	24 000.—
3	The total value of the import substitution envisaged (c i f prices)	36 000 —

TABLE 5

THE F F Y.I P SOME BASIC PHYSICAL INPUT AND OUTPUT TARGETS

1	Number of workers to be employed	15 000 workers
2	Cotton input	65 000 bales
3	Area cultivated for the cotton input	35 000 hectares
4	Hemp input	7 500 tons
5	Area cultivated for the hemp input	6 500 hectares
6	Timber input	76 000 m^3
7	Coal and lignite input	450 000 tons
8	Mineral ore input	265 000 tons
9	Additional utilization of railways	75 000 000 tons
10.	Additonal utilization of sea transport	17 550 000 tons
11	Net revenue of railways	2 000 000 TL

Source for Tables 4 and 5 N Derin, op. cit., p 95

The financial estimates for the implementation of the F.F.Y.I.P. were changed several times over the years: an early estimate of 45 million TL to 64 million TL first, and to about 100 million TL. at the end of the period, without all the projects having been completed, especially in the sphere of heavy industry.

As for the specific projects of the F.F.Y.I.P., it envisaged the establishment of the following factories in the indicated regions.

Industry	Subsectors	Region
1 Chemicals		
	a. Artificial silk	(Gemlik)
	b Semicoke	(Zonguldak)
	c. Attaral Roses	(Isparta)
	d Sulphuric Acid	(Izmit)
	e Superphosphates	(Izmit)
	f Chlorine and Caustic Soda	(Izmit)
2. Earthenware		
	a Ceramics	(Kütahya)
	b Glass and bottles	(Istanbul)
	c Cement	
3 Iron and Steel Industry		(Karabük)
4 Paper and cellulose		(Izmit)
5 Sulphur		(Keçiborlu)
6 Cotton Textiles Industry		(Bakırkoy, Kayseri, Ereğli, Nazilli, and Malatya for yarn and cotton fabric, Iğdır for yarn)
7 Worsted Industry ("Merinos")		(Bursa)
8 Hemp Industry		(Kastamonu)

By the time of the preparation of the Second Five Year Industrialization Plan in 1936 and 1937, most of the projects had already been realized: The factories destined for Bakırkoy, Kayseri, Gemlik, Zonguldak, Izmit (Paper), Keçiborlu and Bodrum had started production, the factories in Bursa, Ereğli and Nazilli had been constructed, and final studies had been prepared for the projects of the relevant establishments in Karabuk, Izmit (other than paper), Iğdır, Kastamonu, and Kutahya.

The institution primarily responsible for executing the F.F.Y.I.P. was the «Sumerbank», which had been established in 1933 to replace the Industrial Credit Bank and the State Industrialization Office.

No explicit economic analysis can be found in the text of the F.F.Y.I.P., either of the Turkish economy in general, or of the above specified projects Naturally, some sort of analysis must have been undertaken before the F F Y I P was drawn up The basic point underlined by the preparation and execution of the F F Y.I.P. seems to be that a country can attain certain technical targets in less time than envisaged without using very sophisticated techniques of economic analysis, let alone any advanced econometric methods. But the careful student should note the fact that the F.F.Y.I.P. was only

a partial program taking the form of a set of very loosely related technical projects. Another lesson to be derived from the experience is that a program such as the F.F.Y.I.P can be financed without receiving much foreign aid, and especially without making any political or economic concessions to aid-giving countries. Indeed, although several foreign loans were obtained during the period 1933 - 39, Turkey succeeded in reducing her total external debt: Short-term external liabilities increased by 17 million TL., but the long-term external debt decreased by 36 million TL.. It would be difficult to better the interesting description given by Professor Hershlag of the foreign economic relations of the «Plan» period:

«The country's economic resources did not suffice to finance the development activities envisaged in the Five Year Plans as well as the activities not included in the Plans. Turkey turned once again to foreign capital with proposals to share in the economic reconstruction scheme— not in the form of participation in enterprises and direct investments, but through loans and credit granted to the State, on terms acceptable in the world of finance. Foreign capital also began fresh inquiries into the possibilities of investing in Turkey, and these inquiries were seconded by political interests. The West did not view with favour the rising economic influence of Soviet Russia, particularly in the early Thirties, nor that of Nazi Germany which succeeded during the latter half of the Thirties in strengthening its foothold on several economic activities in Turkey.

«The terms of the first foreign loan, which Turkey obtained in 1930 from the American-Turkish Investment Corporation, affiliated with the Ivan Kreuger Concern, were unfavourable to Turkey. In return for a loan of 10 million gold dollars (or approximately 20 million Turkish liras) the Government granted the corporation a monopoly on matches and cigarette lighters, and undertook to pay 6 5 per cent interest. The loan and the monopoly given in exchange were granted for a period of 25 years, and it was agreed that payment of the debt before the 25-year limit would not affect the monopoly concession The Government managed to repay the greater part of the loan within a few years; in the meantime, Kreuger's bankruptcy caused the monopoly to be transferred to a local firm for a period preceeding the creation of a new state monopoly.

«The Russian loan, which was realized in 1934, was granted under terms much more favourable than the first loan. The sum of 8 million gold dollars (or 16.5 million Turkish liras) was lent without interest for a period of 20 years, in the form of machinery and equip-

ment, in accordance with current world market prices, at the choice of the Turkish Government Turkey undertook to repay the loan in Turkish liras, to be used by Russia for the purchase of Turkish-made goods

« Turkey received two loans at this time, one of £3 million and the other of £10 million These loans were contracted for an iron and steel mill at Karabük, to be constructed by a London firm, H A. Brassert and Co.,

«The German loan of D.M. 150 million which was negotiated in 1938, and even contracted on January 16, 1939, failed to materialize owing to the outbreak of World War II.»[13]

Foreign loans however, were not used solely to finance the projects envisaged by the F.F.Y.I.P. As a matter of fact, not all the public investment projects realized during the period had been included in the F.F Y.I.P. During the years 1933 - 39, the Turkish Government invested 311 million TL. in public works and services alone. This sum amounts to more than three times the total investments envisaged by the F.F.Y I.P. This clearly shows that the F'F.Y.I P. was partial not only in so far as the macro-economic structure of Turkey is concerned, but also within the framework of government investments **in toto.**

Table 6 shows the details of public investments that took place between the years 1933 - 39 and were not included in the F F.Y.I.P.

TABLE 6

PUBLIC INVESTMENTS NOT INCLUDED IN THE F.F.Y.I.P., 1933 - 1939

In million TL.

Year	Railroad Tracks	Bridges and Canals	Other Works	Local Councils	Other Public Services	Total
1933	15 3	3 8	4 3	3 8	3 0	30 2
1934	17 9	3 7	4.6	5 0	3.2	34 4
1935	16 9	3 7	6 5	6 7	3 5	37 3
1936	17 2	4 8	9 9	5 8	4 0	41 7
1937	18 4	5 0	12 0	8 8	4 4	48 6
1938	21 2	5 3	17 1	19 7	5.2	58.5
1939	21 3	4 9	17 3	10 3	6 5	60.3
Total	**128.2**	**31.2**	**71.7**	**50.1**	**29.8**	**311.0**

Source: Vedat Eldem, **The National Income of Turkey (1929 - 1945),** (ditto in French), R F.S.E Oct 1946 - July 1947, p 47.

13 Hershlag, op. cit., pp. 121 - 122.

2. The Second Five-Year Industrialization Plan

Following the more or less successful fulfillment of the F F.Y.I.P., steps were taken in January 1936 to prepare a Second Five Year Industrialization Plan A Congress of Industry convened in Ankara between 20th January, and 24th January, and elected experts to prepare projects and/or sector studies on the following topics: (1) Mining, (2) Coal mining, (3) Regional electricity plants. (4)Home fuels industry and trade, (5) Earthenware industry, (6) Foodstuffs industry, (7) Chemical industry, (8) Engineering industry, (9) Sea-transport. The studies were prepared in a considerably short period of time and delivered to the Ministry of Economy. They were then carefully examined by a group of experts in the Ministry and combined and published in the same year under the title «2nci 5 Yıllık Sanayı Planı, 1936» (2nd Five Year Industrialization Plan, 1936).

This text, however, was only a preliminary draft and another two years passed before the final draft was accepted by the Government in September, 1938 Certain differences which exist between the drafts are, in our view, less important than the differences between the F.F.Y.I P. and the S F.Y.I.P The targets of the S.F.Y.I.P. can be summarized as follows:

1. The maximum utilization of the mines and natural recources of the land and the sea

2. The establishment of heavy industry based on local raw materials, and, in particular, the development of an industrial zone (Zonguldak-Karabük area) on the basis of the following specific projects: improvements in the railway network and transportation in general, the construction of a modern port for the export of steel and coal, the establishment of an electric power station near Zonguldak, and of a cement factory in Karabuk.

3. The launching of the industrialization of Eastern Turkey by establishing a yarn factory in Erzurum, a cement factory in Sivas, and two sugar factories, a meat-packing and canning industry, and improved port facilities at Trabzon.

4. The establishment of an agricultural equipment factory in Ankara.

5. The construction of a power station and synthetic oil works in Kütahya.

6. The establishment of jute-works in Anatolia.

7. The establishment of a meat-canning factory in Bursa.

8. The establishment of a sugar refinery.

9. The founding of an aluminium factory.

10 The launching of several housing projects.

11 The development of the Merchant Marine through the addition of 28 ships of various tonnages.

12 The expansion of the exports of agricultural produce

The S.F Y I P gave priority and weight to the development of producers' and capital goods, and incorporated many public works in its framework On these points it differs substantially from the F F.Y I P On the other hand, the second plan was also much more advanced in its treatment of individual problems, while the main text of the F F Y I P was only a couple of pages long, the S F.Y.I P. supplied, in addition to the technical material of about 400 pages long, an analytical section containing a general view of Turkish economic policy, a survey of the implementation of the F.F.Y.I P., maps, graphs etc , about 50 pages altogether The Minister of Economics, Celâl Bayar, stressed in his introductory note that the implementation of this great and comprehensive scheme would obviously be impossible with the methods of liberalism This last point, of course, should be interpreted as a protest against the kind of pure **laissez faire** liberalism already dismissed by serious politicians and economists alike, following the Great Depression As we have tried to point out earlier, what the Turkish administrators longed to see was a supported and directed economy still liberal at heart.[14] As contractors for the new government projects and the wholesale merchants of most of the products involved, the majority of the Turkish capitalists saw no point in opposing such an industrialization drive executed by the government Incidentally, the possibility of eventually turning these factories over to the private sector has been a subject that has kindled the imagination of entrepreneurs since the early days of étatist policy, and the issue is still open

Thus the focal points of the S F Y.I P were technically and economically different from those of its predecessor; energy in different forms, and machinery and equipment, were to be the core of

14 As a matter of fact, the same Celâl Bayar was to lead the most liberal movement in the history of the Turkish Republic after 1945, under the title of the Democratic Party, to seize power in the 1950 general elections. There is no great contradiction, in fact, between what he had been preaching as the Minister of Economics in the Thirties and what he and his team did in the Fifties Changing conditions at home and abroad made it possible to follow a more classical strain of liberalism after 1950

the S.F.Y.I.P. It is interesting from the viewpoint of planning procedures that the mining program of the S.F.Y.I.P. was approved in 1937, before the approval of the Plan as a whole.

Another difference between the two plans concerns the help obtained from abroad While the Soviet Union had been the main source of technical assistance, financial aid, and equipment, during the implementation of the F.F.Y.I.P., particularly in the textiles sector, during the period of the S.F Y.I P. (in which the Soviet Union's part was still considerable, particularly in the electrification of the country), Turkey turned more and more to British advisors and to British firms for the execution of substantial schemes. Sir Alexander Gibb served, for example, as an advisor on port development; British engineers helped in the development of copper mines, and British firms were active in supplying ships and locomotives, and in establishing the iron and steel plant in Karabuk.[15]

Another difference between the two plans was that in the S.F.Y.I.P some special efforts were made for the most underdeveloped parts of Turkey, e g , Eastern Anatolia Establishments destined for this region were centered around the Malatya and Erzurum provinces, and the proposed establishments were exclusively in the nature of light industries utilizing local raw materials From a map attached to the text the of S.F.Y I.P., we learn that absolutely nothing had been done in the East during the F.F Y.I.P. period

These technical and micro-economic differences do not imply, however, that there was any change between the two plan periods in the general strategy of the economic regime, nor even in the planning outlook. The text is to a large extent devoid of any consistent economic calculation, with projects based on maximum and minimum benefit calculations with very large intervals. The economic analysis and statistical data are extremely unsatisfactory, and this shortcoming is not even mentioned. Indeed, bristling with highly technical accounts of ore extraction, various physics and chemistry formulae, etc , the text could only have some real significance as a technical appendix to a comprehensive economic planning text, and it is not surprising that this document could not contribute to the creation of a planning tradition or to the training of any planners. The fact that the first and second Five-Year Industrialization Plans were far-removed from any real planning effort becomes clearer when one considers that with the outbreak of the Second World War, the implementation of the projects was totally abandoned, and the

15 Cf. Hershlag, op cit., pp 108 - 109 and 109 n.

Plan put on the shelf never to be heard of again. As we have stated earlier, after the war, changing conditions would bring the capitalist class fully to power, and private enterprise would feel, at least temporarily, that it was strong enough «to walk on its own two feet». However, the early post-war years witnessed a last feeble attempt at planned étatism, and it is worth while surveying it in some detail; for it offers, as we shall try to show, the key to the strategy of the 1950 liberalism that was to follow.

3. The 1947 Development Plan

«The Turkish Plan of Economic Recovery»,[16] as it was titled in its English translation, was stenciled in limited numbers to be distributed to top government authorities and to potential aid-giving countries' representatives in October, 1947.

Turkish and foreign commentators alike agree upon the unimportance of the 1947 Development Plan, on the grounds of its having been completely neglected in the following years. Since it was never implemented they argue, it is futile to linger on its implications or on the techniques it attempted to employ. We think that this approach to the problem is highly questionable; for as we shall attempt to show, the Plan seems to explain the whole strategy of Turkish economic policy between the years 1948 - 1960.

The 1947 T.P.E.D. involved the following sections of the economy :

1. Agriculture,
2. Communications,
3. Major Schemes of Hydraulic Development,
4. Power,
5. Iron and Steel,
6. Cement,
7. Metals, and
8. Industry

Items 1 and 2 in the above list were taken into the framework of a plan for the first time in Turkey. We note also that a large sector such as agriculture is classified at the same level as the subsectors of the manufacturing industry.

The general aim of the T.P.E.D. is summarized at the very beginning as: « Improving the standard of living of the population as a whole, and mainly of the rural population, through the

16 The word «Recovery» is a mistake of the translator, for the Plan has the word «Kalkınma», (Development) on the cover of the original Turkish copy.

development of the country's surface and mining wealth, of its fresh-water and sea products, of its hydraulic power, and by increasing the output of both manpower and mechanical equipment, as well as the fertility of the soil; in its scope (the plan) embraces all the primary sectors of the national economy» (p. 1)

Due to the reason given above, we intend to devote a relatively larger space to the characteristics and implications of the 1947 T P E D than is generally done [17] This plan covered the years 1948 - 1952 inclusively In a private interview, its chief architect, Mr K S. Vaner[18] explained to us that it was implemented by the Democrats after 1950, with some minor amendments

So far as the attitude towards the private sector is concerned, the T P.E D was somewhat more systematic in being generous and helpful This, of course, must not be interpreted to mean that it is basically different in this respect from the earlier planning experiences With a private sector that emerged stronger from the war, greater concessions were quite in order, especially in the light of the basic strategy of Turkish economic development cited above According to the T.P.E D , «one of the major assumptions that have presided over the preparation of the Plan may be summed up in the principle that private enterprise should be left free to thrive in all safety in whatever economic spheres it may elect » (p 3)

Given that principle, the economic scope of the State was neatly delimited The State, it was assumed, should be entrusted with the task of equipping and operating the collieries and lignite mines as a whole, the larger electric power plants, the iron and steel works, the railways, and part of the lines of navigation, all of which admittedly come within the province of public authorities, while all other lines of business should be left to private enterprise «Any operating units falling in the latter category, which are now held by the State, or will be created later on, are thus **to be handed over, in due course,** to private capital» (p 3)

Over the period 1948 - 1952, expenditures totalling 3,728.8 million TL were envisaged This total was to be spent at home and abroad in accordance with the targets shown in **Table 7** below:

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17 We would like to repeat that every serious student of the Turkish Economy should duly study the text of T P E D especially in connection with any effort to explain the economic policies of the 1948 - 1960 period

18 K S Vaner, born in 1903, has studied law and has worked at different government offices as an economist and financial advisor since 1933 Right after the delivery of the final draft of T P E D he was appointed an Ambassador to the United Nations He was the editor of the UN publication on the **«Formulation and Economic Appraisal of Development Projects,»** Lahore, 1950.

TABLE 7

EXPENDITURE TARGETS OF THE 1947 T P E D, 1948 - 1952

In thousand TL.

Sector or Industry	Payments		
	Home	Abroad	Total
Agriculture	332 000	280 000	612 000
Communications	848 855	779 500	1 628 355
Major Water Schemes	142 659	12 341	155 000
Power	270 200	327 200	597.400
Iron and Steel	35 000	93 290	128 290
Cement	12 000	11.000	23 000
Mining	34 950	24 800	59 750
Industry	237 317	287 705	525 022
Grand Total	1.912.981	1.815 836	3.728 817

We observe from the table that in the order of priorities, communications comes first, agriculture the second, power the third, and industry the fourth, with major water schemes, iron and steel, mining, and cement taking the remaining places respectively.

A closer look at the details, however, would reveal that 20.6 per cent of the sum of 3,728 8 million TL is directly allocated to schemes of agricultural development (16.4 per cent to farming, and 4 2 per cent to larger irrigation schemes), while 59 7 per cent is to go, by indirect allocation, to projects subsidiary to agricultural development.

As for the less-preferred industries, the respective shares of metallurgical works, cement mills, and mining, are respectively 3.4. 0.6 and 1.6 per cent of the aggregate expenditure

On the other hand, for the first time in Turkish planning experience, National Income estimates were incorporated into the Plan. Agriculture, Industry, Trade, Services, and Rents are the five items for which actual production figures were estimated for the 1927 - 1952 period, both at current and July 1947 prices. Figures on the relative shares of the above sectors were also given.

Interrelations between the Government Budget and national income are also tackled, again for the first time. Since no further growth was expected in the number of government employees, a

relative reduction was to be anticipatad in the tax-burden with a rising national income

The T.P.E D was largely dependent upon foreign credit, since 1.8 million TL. out of the 3 7 million TL. involved would consist of foreign funds. The estimates for the trade-balance (another novelty of the 1947 T P.E.D) and the balance of payments over the period 1948 - 1952 showed a total deficit of 1,982 million TL. ($ 708 million). Calculations called for a foreign assistance of some $ 648 million which was distributed as follows over the five years in question·

TABLE 8

FOREIGN CREDIT REQUIREMENTS OF THE 1947 T P E D

In million U.S. Dollars

Years	1948	1949	1950	1951	1952	Total
Foreign Currency	151	147	139	124	87	648

It was assumed by the T P.E D. that the gold and foreign exchange assets held by the Central Bank would be maintained at their existing level.

As for domestic financing, not only the State Budget, but certain semi-official institutions were to be involved as well. Thus, a burden of some 412 million TL. was to be shouldered by these institutions and by private enterprise.

TABLE 9

EXPECTED PARTICIPATION OF SEMI-OFFICIAL INSTITUTIONS IN THE FINANCING OF THE 1947 T P E D

In million TL.

Institution	Participation
Sümerbank	150
Etibank	100
Sugar Refineries Co	34
State Monopolies	58
Private Enterprise	70
Total	412

. Therefore, the outlays from the State Budget would be restricted to 510 million TL Of that amount some 332 million TL. were to be allocated to home expenditures under the agricultural development plan, the share of the State for all the other projects being thus reduced to 178 million TL only.

Another novelty of the T.P.E.D. was its attempt to analyse past economic trends for some areas This task, however, was not undertaken with a view to establishing the basis for future development. Rather, it was meant to serve as a basis for implicit comparison, to show the favourable effects of planning on production Thus, at the end of the section on agriculture, an attempt was made to evalute «the effects of the agricultural development plan on the country's agricultural income», but this procedure was not undertaken in the other sections, without, however, any explicit reasons being given.

The kind of statistical analysis used is no different from that of the earlier plan, except that the data used is definitely much more systematic and comprehensive. A step towards macro-economic analysis was taken but not followed up very seriously

The T.P E D gives one the impression that it was prepared as a prospectus to convince foreign aid-givers of the benefits of financing the country's «economic development through private enterprise» It conforms perfectly to the Turkish foreign policy of **rapprochement** with the capitalist West, and to the domestic policy of creating the conditions for the Turkish private sector to attain political power

Apparently its over-all targets were quite seriously considered and even implemented by the politicians of the Democratic Party, for what they did after 1950 squarely fits what the T P.E.D. had envisaged to do· Agricultural development, communication facilities, high-dams and power, very limited weight on producers' goods industries and a very heavy dependence on foreign credit Thus the attribution of the failure of the Democrats in the late Fifties to their «planless action» is probably unjustified, if we consider the 1947 T.P E D document to be a planning text. The failure is rather due to the nature of the planning involved, for it is certainly a thankless task to try and plan a public sector in order to support a private sector which by nature is unpredictable

In the final section of our paper below we will try to answer some general and specific questions that arise from the early planning experiences of Turkey

III. CONCLUDING REMARKS

The basic point to be made in connection with the early planning experiences of Turkey is that the Turkish economy is still an underdeveloped and dependent economy, despite a planning tradition of some thirty years or longer. This is the main paradox to be

observed No other country with so long an experience and effort can now be found at the bottom of the underdevelopment scale. This seeming paradox is resolved, however, when one considers the main target of all Turkish governments of the last forty years: to create a national entrepreneurial class to bring about economic development. In fact, the plans were drawn up not to develop the economy, but merely, to stimulate the emergence — and later on the strengthening — of a planless «free enterprise».

The writer is well aware of the fact that planning is at once much more necessary and much more difficult in countries like Turkey where the economic structure is largely unintegrated, both region-wise and sector-wise. The necessity is so obvious as not to require any further comment As for the difficulty, it derives mainly from the lack of enthusiasm of the decision-making classes for genuine economic development We maintain that the solution is primarily political and not technical Though no one can deny the existence of social and technical problems in every society, the crux of the matter lies in a fundamental change in the nature of the decision-making classes Those classes which maximize profits can do so without any fundamental transformation of society. To keep a country primarily as a raw materials exporting-manufactured goods importing system might well be commensurate with profit maximization but not with industrialization, which is the backbone of any real development effort The problem, therefore, is to give political power to those classes which have the highest interest in national industrialization and the least amount of interest in perpetuating the semi-colonial export-import pattern mentioned above.

Today, anyone taking planning seriously will consider the following principles as the minimum requirements for a successful planning effort:

1. Objectives and aggregate targets, primarily in terms of national income and employment;

2 A public investment program with distribution of development expenditures among major sectors, chiefly for building up economic and social infrastructure,

3. A projection of private investment among various major sectors;

4. Policy measures (especially in the fiscal, financial, foreign trade, foreign exchange, and foreign investment fields) to stimulate, direct, and influence private investment;

5. A program co-ordinated with (4), for financing public and private investment from domestic and foreign sources, including particularly the government budget and the foreign exchange budget;

6. Sectoral programs containing individual projects; and

7. Policies aiming at basic institutional changes, including land reform, labour policy, etc. [19]

This program, so characteristic of present-day technical development planning, assumes that the decision-making class favours an overall development. Particularly the 7th point, relating to basic institutional changes, is obviously based on this assumption. All the technical considerations are no doubt relevant but only after the basic change ensuring this favourable approach has been affected.

Even if one considers the purely technical aspect of the early Turkish experiences, it will be seen that planning documents are lacking in most of the enumerated standards The only document that partially conformed to these technical standards was the 1947 T.P.E D, the two previous planning documents being no more than rough programs

We would like to conclude by insisting on the necessity of a philosophical grasp of the problems of a given society if the development process is not to be abandoned to the blind forces of the system, but on the contrary, be subjected to the will of creative and development-favouring ruling classes. Since the interests of these classes would not clash with the scientific study of the system, another necessary condition of development planning — namely, a systematic and detailed knowledge of the facts of experience — would be achieved. Lack of basic statistical data, non-existence of meaningful accounting systems are all technical problems related to this lack of interest on the part of the actual ruling classes of developing countries. These classes have no interest in scientific research directed to development, and this, of course, is quite understandable on their part

All these generalizations are relevant to the Turkish experience. As things stand today, Turkey's main problem is still that of saving the economy from «planless planning», by equipping the development-favouring classes with the power of macro decision-making. To our mind this appears as the principal lesson that should be learnt from the past planning experiences in this country.

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19 United Nations, Economic Commission for Asia and the Far East, **A Decade of Development Planning and Implementation in the ECAFE Region**, ECAFE, Vol XII, No 3, December 1961, p 2

II

THE RE-EMERGENCE OF THE IDEA OF PLANNING AND THE SCOPE AND TARGETS OF THE 1963-1967 PLAN

by
A SÖNMEZ *

INTRODUCTION

This paper is intended to clarify the economic and — as far as relevant — the political context in which the First Five-Year Development Plan of Turkey was elaborated. It will be attempted to examine the scope and targets of the Plan in relation to the economic and political conditions which prevailed at the time of its preparation. It is far from being certain, however, that this attempt will be entirely successful mainly because it is too early as yet to place the political events and facts of this period within their proper perspective

On the other hand, the author is no expert on political matters. It is possible that he will tend to take political attitudes at their face value and will appreciate the inter-play of political forces only to the extent that his functions as an expert have brought him in personal contact with their influences The fact that he was not in a position to consult various archives at the time of the writing of this

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* The author was an expert, and later Head of the Economic Planning Department, in the S P O This paper was prepared while he was U N Economic Planning Advisor to the Republic of Somalia

paper must be considered as yet another shortcoming Many of the other persons who have been involved in the process of the creation of the S.P O and the elaboration of the Plan, some of them for a longer time and more intensively than himself, are certainly in a position to throw more light on the subject The author can only hope that the following remarks will lead to a fruitful discussion on the subject by inducing these experts to contribute their respective and very valuable observations in this connection

I. THE RE-EMERGENCE OF THE IDEA OF PLANNING

The planning experience undertaken in the early Sixties represents, in fact, the renewal of an old idea As explained elsewhere in this book, Turkey had experienced some sort of planned development before the Second World War and to our knowledge, it has never been claimed that the idea was abandoned due to its failure. The implementation of the «Second Plan of Industrialization» was simply suspended because of the War

The fact that the idea of planning (it is not appropriate to speak of «ideology» yet, at this stage) did not survive after the War is significant in two respects It means, first of all, that the official attitude towards «development problems» had changed considerably relative to the pre-war period Drastic changes both in the internal political environment and on the international scene, had resulted in a development policy with a much greater accent on external factors The idea that the resources needed for the development effort can be meaningfully supplemented by external savings tended to occupy a central position in development policy. This was an important change over the pre-war attitude on the subject.

At the same time, the U.S as a world power had become much stronger economically and politically, in Europe and the Middle East, than it had been before the War; and American official thinking on development matters was not exactly in favour of the planned economy. Planning was viewed by many as something of a corollary of collectivist economy.

In Turkey, alliance with America, sympathy for development through the free-enterprise system, condemnation in irrational terms of state intervention in economic activities, and a development effort based on foreign (American) assistance constituted the «Leitmotiv» of the newly born and dynamic opposition party. The Government and the R P.P (Republican People's Party) behind it were themselves not immune to the «new» ideas. This state of mind would continue

until the late Fifties, even if its effects on actual economic policy were subject to wide fluctuations from time to time.

In 1950, the Democratic Party, the main supporter of the doctrine—if not the practice—of «laissez-faire», came to power with a tremendous majority and the Republican People's Party passed to the opposition. In its first three or four years in power, the new government registered a notable short-term economic success, thanks largely to a substantial amount of foreign assistance and external borrowing. During this period, the leaders of the D.P. accomplished the remarkable task of advocating the most liberal economic policy possible, while at the same time providing the State Economic Enterprises system — established as part of the pre-war planning experience—with a second «Golden Age». Not only were the numbers and the scope of the SEE's considerably increased, but the State also undertook production activities in sectors which only the most arduous supporters of state intervention could dream of. The fact remains, however, that this direct state intervention in productive activities, as well as economic policy in general, was decided upon in a piecemeal fashion and according to the daily mood of the leaders. Nothing was conceived as part of a more general design which might be called a plan, albeit primitive.

With the second half of the decade came increasing economic difficulties The effects of the Korean War boom on export earnings were absorbed, and the limits of cultivable lands were reached through the use of tractors and other agricultural machinery, so that the support prices given by the Government to agricultural products no longer generated a corresponding increase in production. Heavy public expenditures coincided with other—mostly structural—pressures and led to inflated demand in all sectors. Soon the Turkish lira became over-valued and the trade balance began to show the strain of the considerable pressure in the direction of increasing deficit.

Nevertheless, probably because of the fact that the Government refused to admit the existence of inflation and because of the dogmatic aversion towards the idea of a Plan, still no need was felt for planning. In fact, the preamble of the 1959 Budget, after exposing the various measures taken in 1958 to combat the inflation, went on to declare happily that all this should not be interpreted as meaning that the Government was in any way «planning»; quoting a famous German author, the preamble made it clear that «we are against planning, because we favour a rational economy»!

In the meantime a two-sided evolution was taking place. In the first place, in Turkey the chief opposition party, the R.P.P., was undergoing a process of renewal of its leading elements. More and more, economic problems were brought to the center of the debates with the Government Economic difficulties had started in 1954 and become aggravated from 1956 on, the inflation and the balance of payments difficulties making it politically profitable for the opposition to focus on economic problems. Younger people in the R.P.P. ranks, as well as independent intellectuals, were now beginning to speak of the necessity of planned action.

Secondly, during the same period, in the U.S., as well as in various international agencies, the idea of some sort of planning gradually ceased to be considered a heresy. To follow «The Economic Conditions in Turkey» published annually by the OEEC (later OECD) among their annual «country reports», one finds that up to 1956 there is no mention of development programming. Up to that date, the International Organization does not feel any embarrassment in recommending such measures as strict financial stringency, a more cautious policy with regard to the SEE investments, and trade liberalization, ignoring totally the fact that the target recommended with regard to financial equilibrium or a rational investment policy (in volume and distribution), or external balance, can best be achieved within the framework of overall requirements and resources determined for a longer period than a budget year. More or less the same comments can be said to apply to various reports prepared by the American Aid Mission in Ankara, and the World Bank Thus, a report prepared by H. Chenery and others for the U.S.F.O.A.[1] recommended a more rational investment policy in particular — it is not yet development planning which is recommended. An earlier report prepared by an I B R D Mission reviewed the economic policy in general, and prepared a development program of its own. The report even contained a proposal to establish an «Economic Coordination Staff» directly under the Prime Minister, or better, under a Deputy Prime Minister to be in charge of coordination matters. However, the report stated clearly that «comprehensive planning in Turkey is neither desirable nor possible», without giving any clear reasons for that statement.[2]

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1 Hollis B Chenery, George L Brandon, Edwin J Cohn, **Turkish Investment and Economic Development**, U S. Foreign Operations Administration, December 1953

2 **The Economy of Turkey** (Report of a Mission sponsored by the I B R D.), Johns Hopkins Press, 19[illegible], pp. 53 - 56 and 251

By 1957 the OEEC was ready to declare that «it is strongly to be hoped that the Government will be able to achieve the necessary degree of control in the near future, so that investment activity may be directed into the most appropriate channels and remain within the limits compatible with internal and external equilibrium.»[3]

In 1958, after the famous negotiations in Paris with the I.M.F., the O E E C, and the U S authorities — which led to the **de facto** devaluation of the Turkish lira and to the program of stabilization — the related document gave, under the heading of «Recommendations», the following advice «It is of great importance that this Ministry [of Co-ordination to be established] should exercise the necessary powers to ensure that, henceforth, there should be the necessary co-ordination of investment, **within the framework of a development program**».[4]

Finally, a Ministerial Co-ordination Board was set up to assist the Government in deciding on the investment projects to be carried out in the public sector. The Board had no fixed frame of reference for promoting and selecting investment projects It was instructed to give higher priority to the projects intended to improve the balance of payments, and had to rely on an extremely empirical, «project-by-project» basis of selection. The work of the Board and of the Investment Committee working for it was handicapped «by the absence of an overall development program».[5]

Thus, a very strong pressure began to be exercised from abroad to involve the Government in development planning The academic circles in the country and the opposition groups were also stressing the need for a planned effort Although it is difficult to estimate the influence of the pressure exercised by internal opposition groups upon the Government, it is probably correct to say that it had a rather definite impact on informed public opinion throughout the country Even at its weakest periods, the R.P P had had wide-spread support among the educated middle classes: civil servants, army officers, teachers, etc It would not be too far-fetched to say that by the late Fifties, among these categories of the population, economic planning had come to be regarded as the magic solution to all evils. The fact is important for the understanding of the emergence of an almost emotional commitment to the idea of planning, following the 1960 Revolution.

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3 **Economic Conditions in Turkey**, O E E C, Paris, 1957, p 10
4 **Turkey**, 1958, O E E C., Paris, p 32
5 **Ibid.** p. 13.

It must be remembered, however, that the real electoral basis of the Democratic Party had always been the peasantry, and the Turkish peasantry was never very deeply impressed by the preachings in favour of a planned economy An analysis of the reasons for this state of affairs would take us outside the scope of this paper, but the fact is well worth retaining as it explains the purely externally-induced character of the planning (or rather co-ordination) attemps made before May 1960 This does not mean that the post-1960 planning exercises are totally free from elements of external coersion, but rather that factors came into play in the latter case that make the two situations entirely different.

At any rate, the substance of the claims for a planned effort for development in the late Fifties, at least as far as its foreign supporters are concerned, can be reduced to the idea that the main points are to «co-ordinate» investment projects, to assure a proper use of foreign assistance, and finally to avoid the occurrence of serious financial imbalances

Within the country, opinions were more varied. Already in 1955 Mr. İsmet İnonu, the leader of the R P P., had declared that «the opposition insists on a real equilibrium of the Budget, of the external payments, on the stability of Turkish currency and to obtain these results, we insist on the need for an orderly plan and programme.»[6]

Perhaps these measures were really all that was needed to meet the requirements of the day, nothing that could be called a longer perspective existed in the R P P. ranks Serious discussions were made within limited academic circles, and publications, and even the Research Center of the R.P P., formulated ideas of a longer term implication. It would be no exaggeration, however, to say that the mainstream of the R P.P , as well as other opposition parties, had in mind nothing more than a «stable and orderly» economy when they spoke of the need for «planning»

With the May 1960 Revolution the situation was drastically changed The army officers of the National Unity Committee who came to power were, generally speaking, quite open to certain progressive ideas coming from the Universities, the press, the Administration and different political parties. These ideas were largely represented in the Constituent Assembly, and in the various work-groups established by the N.U. Committee. Indeed, if only a coherent

6 **Muhalefette İsmet İnonü (1950 - 1956), Derleyen S. Erdemir, M. Sıralar** Matbaası, 1956, p 330.

political outlook in development matters had existed within the N.U. Committee and the Government empowered by it, one could have said that Turkey was in an ideal position to plan for far-reaching structural changes which would bring the country to a satisfactory state of development within 15 - 20 years.

The accomplishments of this brief period in the matter of development planning were nevertheless considerable On 30th September 1960, only four months after 27th May 1960, the Law establishing the State Planning Organization (S P O.) was promulgated. This Law provided for all the administrative arrangements necessary for the proper functioning of an up-to-date planning organization. Furthermore, it defined planning functions in a clear and satisfactory manner The S P O. would:

a) evaluate thoroughly the natural, human, and economic resources and potentialities of the country and advise the Government in setting the targets and defining the economic and social policy to be followed,

b) advise the Government on the co-ordination of the activities of various Ministeries involved in economic policy,

c) prepare the short and long term plans for the realization of the targets set by the Government,

d) advise the Government on the improvements to be introduced in the establishment and functioning of all the Government Agencies, local administrations, necessary for a successful implementation of the plans,

e) follow-up and evaiute the implementation, and propose amendments to the plan,

f) encourage and regulate the activities of the private sector according to the targets and intentions of the plan [7]

On the other hand, the new Constitution made it a duty for the State to ensure that «economic and social life is based on the objectives of justice, full employment, and living standards compatible with human dignity, for all,»[8] and that this would be accomplished through democratic development planning These quotations reflect the state of mind among the leaders of the time, and are significant only to the extent that one can hope to provoke a development process with legislative measures of this kind alone, without a con-

7 Law No. 91, Establishing the State Planning Organization, Art 2.
8 The Turkish Constitution, 1961, Art 41

tinuing political determination among those in power or without an active consensus among the people in general.

By 1960, planning had started to become a sensitive issue; from then on it would have an ideological undertone, and the fact that a Government stands by the Plan more or less rigorously would be the criterion of its progressive-mindedness These remarks, however, already anticipate the events of the next few years, and our purpose here is only to cover the period up to the emergence of the idea of development planning in 1960

Such, in its main outlines, was the political climate which prevailed at the time of the elaboration of the First Five-Year Development Plan.

II. THE ECONOMIC CONDITIONS OF THE PRE-PLAN YEARS (1960 - 1962)

The study of the economic conditions of the years immediately preceding the plan period cannot be restricted to the conjunctural elements only A development plan is not an instrument to fight against short-term difficulties In this part, we shall attempt to survey briefly the main structural as well as conjunctural problems that existed at the time of the preparation phase of the plan

In 1960 the Revolutionary Government found the economy without much possibility of maneuvering. The reserves of gold and foreign exchange were practically nil and the foreign debt amounted to 850 million dollars Exports were stagnating at the level of slightly more than 300 million dollars a year In fact, export earnings in 1959 were below the 1953 Korean War boom level. The Terms of Trade had been deteriorating almost continuously for the last 10 years

The economy had gone through a period of strong inflation. The 1958 stabilization program had been carried out with some success for about one year, but from mid-1959 on, inflationary mechanisms were once again set going by the Government A large amount of deficit financing was allowed in the Budget as well as in the SEE sector, through the Central Bank and other Governmental financing institutions In the summer of 1960 some 4965 big and medium-sized projects were under way, for most of which no internal or external financing had been secured.[9]

9 1961 Mali Yılı Bütçe Tasarısına Alt Gerekçe (The Preamble of the 1961 Fiscal Year Budget), Min. of Finance, Ankara, 1961.

The 1960 Budget (7.830 million TL. of expenditures) was estimated to have a deficit of about 1.000 million liras. Already by the end of May 1960, government borrowings from the Central Bank amounted to 348 million liras. The SEE's, applying an artificial price policy and engaged in un-coordinated and excessively ambitious investment programs, were using inflationary means even to finance their operation costs Many of them were unable to pay their taxes to the Treasury

Tax incomes were far from following the growth of GNP, and no real improvement had been made in the taxation system for years. In fact, from 1953 to 1959, the average income tax return in real terms had fallen from 2388 liras per taxpayer to 1488 liras These figures concern the people taxed under the Income Tax «declaration» system Other taxpayers, essentially with limited and fixed incomes, who pay their Income Taxes under the «stoppage» system, had to pay a relatively increasing share of the Income Tax. And everything indicates that during the inflation period the real incomes of the first category of taxpayers increased considerably more Therefore, the Tax System in general was not only financially inadequate, but also socially unjust. As for the finances of the local administrations, they were in an even worse state .

This partly explains why, in spite of the heavy strains placed upon the real resources of the country, the rate of investment was, on the average, only about 12 per cent of the GNP during the 10 year period. Whatever progress had been accomplished in the industry and construction sectors was so closely geared to the inflationary forces that with a little tightening up of credit facilities after the 1958 Stabilization Program, the economy slowed down considerably. It is remarkable that the Government could not pursue its policy of financial restraint for more than one year In the summer of 1959, inflationary financing became once again the general practice in every sector of activity. It has been estimated that if all the projects included in the 1960 Budget and SEE programs had been carried out, the public sector would have ended 1960 with a deficit of roughly 3000 million TL!

It is interesting to note that in spite of the inflationary pace of the economy, there was a definite reluctance on the part of the private sector to invest, and complaints about slackening business and increasing unemployment were coming from everywhere.

After May 1960 the new Government gave first priority to financial matters. In the Government Budget a reduction of over 500

million TL. was effected in the expenditures, and Government Bonds were placed in Banks for a total of 250 million TL., to increase revenues. Some of the SEE investments were cancelled altogether and some were postponed. A reduction in the SEE expenditures of about 1000 million TL. was thus realized for the whole year.

On the other hand, in order to revive business activity in the private sector and to restore confidence, a certain number of measures were taken Credit ceilings were abolished for exports and for industrial investments The National Protection Law, instituted in 1956 - 57 and providing for government control of prices and inventories, was abrogated. Thus, the second half of 1960 actually saw a definite stabilization of prices and a certain increase in gold and foreign exchange reserves However, the low level of business activity inherited from the previous period continued for quite some time, especially in the private sector In 1961 this tendency would continue, in spite of the fact that the level of public (Budget) investments were about 20 per cent higher in the 1961 Budget than in the modified 1960 Budget.

The average annual rate of growth of the GNP during the five years preceding the Five-Year Plan period was 3.3 per cent, or only very slightly higher than the annual rate of increase of the population. To see how serious the situation was, one should also note that the increase of population is, above all, an increase in the non-active population, with little aid to GNP growth; thus. prior to the Five-Year Plan, GNP per capita was below 200 dollars per year and it was practically stagnating. Further, GNP largely originated in agriculture, varying widely as a function of weather conditions Yields per hectare were levelling except for a few industrial crops. The expansion of agricultural land had reached its economic limits.

To increase the income per capita, the only possibility seemed to be faster industrialization with an increase in the yields per hectare in agriculture. Expressed very broadly, these are the targets set by the Development Plan. But the Plan also had to provide the means to attain these goals These were augmentation of investible funds, plus more qualified manpower and organizational skills in every sector of the economy.

Investible funds proved insufficient in the past since the rate of investment had been around 12 per cent of the GNP and never exceeded 15 per cent in spite of all government efforts. Private savings were low, due to well-known reasons. Public savings had not

increased sufficiently, not only because of a weak collection system, but also because the taxation system itself was not adequate. To these must be added the improper management and administration of the SEE's or public sector undertaking in general. Export earnings had not marked any progress for over 10 years; consequently, in spite of the melting away of foreign exchange reserves, and a relatively substantial foreign assistance, investment efforts had been hampered by the scarcity of foreign currency financing.

Although we have less quantitative information about it, one can say that in many fields, lack of qualified personnel and skills also hampered the growth of the economy considerably. However, the fact that in the past Turkey had been able to achieve a brighter economic performance with considerably less qualified personnel at all levels makes one doubt that this factor was a strategically important bottleneck. Nevertheless, new industries with new technology certainly necessitated an effort and a new emphasis in the direction of Technical Training, and independently of «pure» economic development purposes, a considerable effort was also necessary in the field of education

Investments were necessary to build the infrastructure necessary for a long-term sustained growth: roads, ports, airports, telecommunications, dams, canals, schools, houses, urban facilities, etc. The need for all this was acutely felt Especially the poorer regions of the country and the poorer classes of the population hoped that this new experience called the «planned economy» would improve their conditions by bringing them medical care, decent housing, proper schooling for their children, and, above all, more employment opportunities Almost all conversations about the misery of the people ended, in one way or another, with the expression of the hope that «the Plan» would take care of it We do not mean to say that every farmer was following with keen interest the proceedings of the High Planning Council, but a sort of myth of the planned economy as a magical instrument was spreading over large sections of the people. In reality this was a dangerous thing, because to prepare and publish a plan does not necessarily mean that the Government is going to have a more systematic approach to the solution of development problems and it certainly does not mean that, just because there is a plan, a policy closer to the people's aspirations will be followed. Until it was published, there was fervent support for what little was known of the would-be-Development Plan. It was only after the Five-Year Plan was published that it became necessary to under-

take a rather important effort to «get the people to know the Plan and to like it».

III. THE SCOPE AND TARGETS OF THE PLAN

The Turkish Development Plan is a comprehensive plan. Its directives are in the nature of a sort of «plan of operations» as far as the public sector is concerned· Government Budgets, and the work programs of the SEE's have to be prepared in accordance with the plan. For the private sector, on the other hand, it is of a more indicative nature, although through a system of incentives and disincentives (taxation, credit policies, etc.) it is intended to direct the private sector as well

Probably the best way of reviewing the targets of the Plan in general terms, is to glance briefly at the document called «The Objectives and Strategy of the Plan »| This document, approved by the Council of Ministers on June 29, 1961, at the time of the National Unity Government, contains the directions given to the S.P.O. by the political authority. The Five-Year Plan and the Annual Programs were to be elaborated within the frame of these directions The plans were to be only a technical elaboration or operational expression of the political choices laid out in this document It will be seen, however, that the distance between the objectives and means envisaged in the «strategy» and those finally retained in the Five-Year Plan (1963 - 67) is as great as the distance between the political outlooks and political bases of the two Governments who approved them.

The Strategy foresaw an annual growth rate of 7 per cent within a perspective of 15 years It estimated that in the early years an investment ratio of about 18 per cent would be necessary to achieve this growth rate, with an increasing savings ratio for the later years. This increase would be realized through the use of the incremental revenues deriving from the growth process, in any case, the savings policy would go «in the direction of narrowing the differences in the distribution of incomes and not widening it »[10] Thus, higher income groups were to take a greater part than in the past in financing the development effort; consequently, the savings policy implied an improvement in the standard of living of the large majority in the short as well as in the long run.

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10 **Plan Hedefleri ve Stratejisi** (Objectives and Stategy of the Plan), approved by the Council of Ministers on 29 June 1961 and re-approved by the Second Coalition Government in December 1961.

According to the Strategy, measures would be taken to encourage the increase of private savings and their use for a faster growth of the economy.

The level of public savings would be kept at their maximum possible, and the practice of inflationary financing would be banned. Taxation would be the main instrument for public savings. Tax progressivity, which was one of the main elements of social justice, could not be assured under the existing income tax system, due to the social structure and to organizational defects Other devices would therefore be set up to assure the progressivity, by filling up the gaps in the Income Tax structure.

Another important source of public savings would be the State Economic Enterprises and the social insurance funds. The necessary re-organization measures would be taken in this connection.

Among other organization measures, we must mention the all-important Agricultural reform to «bring land holdings to the optimal size to assure maximum benefit from the use of machines and of rational methods of exploitation» It was also noted that «unless this is done, one cannot expect new investments to produce sufficient results.»

These are the objectives and means approved by the «Strategy» document of the First Five-Year Plan.

It would be impossible to discuss point by point the First Five-Year Plan in relation to the «Strategy» which it is supposed to translate into operational terms. Therefore a few points, considered as essential, will be singled out to show the discrepancies existing between the intentions of the two approving authorities, namely the Council of Ministers of the National Unity Government in 1961 and the Council of Ministers of the Coalition Government of the following year.

This difference of outlook can best be shown by comparing the draft Five-Year Plan text prepared by the S P.O according to the directives given in the «Strategy» and the final text as approved by the Government [11] In this respect it is sufficient to take only three points to make clear the intentions of the Government in modifying the plan text.

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11 The Plan was also approved by the National Assembly But the Assembly did not make any significant changes in the text, and a special Law, to ensure that no major changes were made in the Plan, was passed.

The first point concerns what is called the «Agricultural Reform» in the Strategy. The draft prepared by the S.P.O. as an appendix to the Plan was not even discussed by the High Planning Council because those H.P C. members who were ministers of the cabinet were opposed to it This draft, based on a report prepared by an FAO expert, foresaw a maximum limit to land holdings. The limit was to vary according to regions, irrigation possibilities, and other characteristics of the land. A Commission was to be set up to implement the Agricultural Reform measures. On the other hand, the draft included proposals for the improvement of land tenure, the use of machinery and fertilizers, and the organization of agriculture in general, by encouraging agricultural cooperatives

The second point of disagreement between the draft and the final text concerns the re-organization of the SEE's The draft proposed that a distinction be made between the traditional («étatic») activities and the production activities of the State. According to this principle, all the SEE's would be attached to a central authority which would exercise the function of control over the general management and investment policy of the SEE's and assure their coordinated action This central body would assure financial auditing as well as maintain a permanent staff to introduce new methods of organization, personnel management, etc. On the other hand, the individual SEE would be given a free hand in its day-to-day operations and management. The central authority should be kept away from political and private business interferences. This principle of re-organization, almost identical with the organizational pattern of the biggest international corporations, was also refused by the H.P.C. and deleted from the text.

The third and in the short run probably the most important difference is over the financing issue. It must be noted in this respect that, what was at stake originally was not only the financing of the Plan but also the method of financing. But with the approval of the 1963 program the problem was reduced to the single question of the volume of financing, because the principle of a more balanced and economically sound method of financing had already been rejected during the discussions of the Five-Year Plan.

To begin with, the Government was not prepared to set targets in financial terms For instance, they considered that it was wrong to state in the Plan that the Turkish taxation system needed more elasticity to assure a rise in tax revenues greater than the «automatic» increases realized in the past. Expressions as mild as the one

which said that «even in the final year of the Plan, when all the increases in Tax revenues have been realized, the Tax burden in Turkey will still be smaller than it is in more developed countries,» were considered excessive and too frightening to private business interests.

The direct meaning of the «Objectives and Strategy of the Plan» document is that, no matter what sector they may be generated in, higher incomes must be taxed proportionately more than lower incomes Also, if the Tax burden is not to deter private initiative, it is obvious that it would be necessary to distribute taxation more equitably among the economic sectors

It had been known for years that agricultural incomes, however high they might be, were practically tax-free and that this state of affairs was a hindrance not only for the public finances but also for the distribution of land ownership and for agricultural development This system provided the highest possible incentive for «absenteism» and for the neglect of the land holdings The social environment provided no compulsion to improve the land, to increase production.

On the other hand, agricultural incomes constituted over 40 per cent of the total GNP, and great imbalances in the land-ownership distribution caused an important portion of this income to be accumulated in the hands of a small number of rich families Moreover, the Plan foresaw a very high level of public investments in the Agricultural sector. These investments, financed by taxes collected on lower non-agricultural incomes, were certain to double (or increase even more) the value of land overnight Thus, there was every economic and social reason for bringing at least the higher agricultural incomes under direct taxation An analysis made along these lines was completely deleted from the draft text

It was argued against this analysis that although more than 40 per cent of the GNP was generated in Agriculture, this income was shared by more than 70 per cent of the total population But this was no answer to the suggestion that a tax should and could be established for higher incomes, while the lowest agricultural incomes were completely exempted from the tax

The second and allegedly the decisive argument against agricultural income tax was that agricultural incomes were difficult to assess even in countries with a more sophisticated tax collection system; in this country, it would be practically impossible to effectively tax agricultural incomes But this was not a very sound argument

either. As has been explained above, only higher agricultural incomes would be taxed to start with, the number of taxpayers would thus be extremely small, and collection would become technically easy or at least feasible, while the tax yields would be quite substantial. On the other hand, the Agricultural Income Tax envisaged in the Draft was not an ordinary income tax It proposed that a certain number of criteria other than income be taken as a basis for the assessment of incomes. These criteria were to be the size, the location of the land, the irrigation conditions, and the average yield per hectare fixed periodically for every region. These elements, if properly handled, would permit a technically feasible and socially just distribution of taxation, and the technical difficulties inherent in Income Tax assessment and collection could be avoided as concerns agricultural incomes. Excessive assessments and other technical difficulties arising during implementation could be handled later on, and the system could be smoothed out progressively Until that time, tax rates could be kept considerably lower than the income tax rates applied to non-agricultural income

The fact that reference to the idea of agricultural income tax was completely deleted from the draft text, in spite of all these and other arguments, is a clear indication that the Government was not prepared to tax agricultural incomes, and this on purely political grounds Of course, this is just as legitimate an attitude as any other. Political factors are to be evaluated by those who are politically responsible, i e by the Government However, the fact remains that this attitude was clearly opposed to the principles laid down in «the Objectives and Strategy of the Plan» which was given to the S P.O as the «policy guide», to constitute the basic set of choices in preparing the plan Obviously, the Government could also have revised the «Strategy», however, this was not done Therefore, the objective of a 7 per cent rate of growth was maintained as well as all other objectives, but the means necessary to achieve this set of objectives were rejected. Of course such an attitude has meant, in effect, nothing less than a back-door return to the practice of the governments of unplanned years

III

THE ESTABLISHMENT AND STRUCTURE OF THE STATE PLANNING ORGANIZATION

by
O. N. TORUN *

INTRODUCTION

The establishment of the State Planning Organization, and the preparation and implementation of the First Five-Year Development Plan and Annual Programs, are clearly among the most prominent events of recent years. The present work, written while the experience is still fresh in the minds and interests of the participants, will doubtless prove valuable for future research on the history of economic development in Turkey Credit is due to the Middle East Technical University for having broached the subject at this early date

As a person who has worked in a responsible position in the organization during the two years from its establishment until the First Five-Year Plan was submitted to Parliament for approval, the author feels that he has an obligation to include in the following account certain observations and recollections related to the events of the first few years

In this article, the fundamental principles underlying the establishment and management of the State Planning Organization will be examined in five sections. In the first section, we shall describe

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the early preparation activities and trace out the various developments that led to the general framework of planning. The second section will deal with the various alternatives considered for the determination of the organizational and administrative set-up. The third section will be an account of the final organization scheme adopted. Next, a discussion of personnel problems and an explanation of the personnel policy initially followed by the organization will be attempted. The fifth and final section of the article will be devoted to a brief evaluation of the activities of the organization.

I THE PREPARATION PHASE AND THE EVOLUTION OF THE GENERAL FRAMEWORK

Turkey is on the record as the first country who made an effort for planning a mixed economy between the two World Wars, at a time when planning was generally considered to be the exclusive tool of the socialist economy

While the First and Second Industrialization Plans may not conform to the present day concept and technical characteristics of development planning,[1] the fact remains that for their time they constituted quite serious efforts That these efforts correspond to the period immediately following the Great Depression can be considered as proof of their seriousness It is interesting to note that these first Turkish planning efforts coincide with important developments in orthodox economic theory With the outbreak of the Second World War, however, the imperatives of the war economy resulted in a temporary suspension of these early planning efforts.

The post-war years witnessed the emergence of the multi-party system in Turkey, and alongside of this political development, the government's approach to economic policy in general, and to economic planning in particular, evolved considerably This change of attitude on the part of the political party which had prepared the First and Second Five-Year Industrialization Plans did not manifest itself through any alteration of statutes or of the party program, but rather in practice. The 1947 Plan, prepared at this time, was not even submitted to the approval of the authorities and remained, in draft form, in the State archives

Both the First and Second Five-Year Industrialization Plans and the 1947 Draft Plan were fundamentally sectorial programs oriented towards industrialization No special responsible body was

[1] Cf. the first article of the present volume

even created for the preparation of these plans; all of the preparations were made by Temporary Commissions which were composed of representatives of various Ministeries and other institutions, and which dissolved, once and for all, after the drawing up of the documents. Indeed, the Commissions were considered so unsystematically that even the names of many of their members are unknown today.

In 1950, for the first time in Turkey, political power changed hands through elections; the political party that came to power was one that advocated a liberal economic policy Thus at a time when planning techniques were becoming more refined and planning itself was gaining both widespread acceptance and increasing prestige in Turkey it was implicitly condemned on political grounds, as a tool with undesirable connotations After 1954, however, economic difficulties started, and with them came a series of criticisms from opposition parties to the effect that the government policy conformed to no plan or program whatsoever. Beginning at about the same time, aid-giving countries and international organizations started making recommendations about the necessity of exercising a certain degree of planned control over economic matters.

Notwithstanding these debates however, the liberal approach was adhered to, without any reticence, until June 1956, when prices showed the first signs of the very serious impasse which had been developing As a result, the government intervened quite brusquely to regulate prices, by re-suscitating and re-enforcing the various regulations and sanctions of the National Protection Law passed during the war-economy years for price-control purposes. Then came the establishment of a Ministry of Co-ordination, followed by the Paris Conventions concerning retarded debt payments. Finally, it was decided to establish an economic advisory body attached to the Prime Minister's Office, and an agreement was reached with Prof. Jan Tinbergen for the preparation of a «Development Plan» for Turkey. The first discussions concerning the envisaged plan— held between Prof. Tinbergen and the (then) Minister of Foreign Affairs, F. R Zorlu — took place in Paris in 1959. In April, 1959, Prof. Tinbergen visited Turkey together with Mr J. Koopman, and during his five-day stay in the country, started preliminary studies for the Development Plan. On May 27, 1960, when the Army seized power, the agreement was still in effect; and Mr. J. Koopman was working on the preparation of the plan together with the Turkish experts who had been designated to assist him. The fact that public

opinion was kept totally in ignorance of these preparations can only be explained by the government's previous (and clearly expressed) aversion to the idea of planning, and the consequent reluctance to admit that in addition to the **de facto** interventionism which had existed from 1956 onwards, this attitude itself had now to be clearly abandoned. On the other hand, this necessity for the government to resort to development planning coincided with the opposition's now long-standing support for planning This, together with a public opinion rendered more and more favorable to the idea through the early debates, contributed to an atmosphere conducive to a relatively smooth passage to a «planned economy» We should point out here, however, that this general commitment to the idea was not accompanied by any clear notion of what exactly was implied by planning, nor of what kind of plan was involved

The new government gave first priority to preparations for the establishment of a Planning Organization. Of the two Draft Bills presented to the Council of Ministers, the Orel Draft was accepted, after long discussions, and submitted for approval to the Committee of National Unity The Committee accepted the Draft with slight alterations, and it was promulgated on September 30, 1960. The law was published in the Official Gazette on October 5, 1960 Following its submission to the Constituent Assembly, the law was subjected to two amendments, through Laws No. 99 and No 340 (dated October 15, 1960, and August 3, 1961 respectively) Both amendments had to do with the personnel regime of the Organization, and aimed at increasing its powers for the employment of experts.

With the passing of «The Law (No 77) Concerning the Implementation of the Long-Term Plan and the Protection of its Integrity», on October 18, 1962, the legal procedure relating to the formalization of the Plan and to its insertion within the administrative mechanism was accomplished, and thus, the establishment of the State Planning Organization was formally completed. This law, promulgated in accordance with the imperative provision of Article 129 of the Constitution, displays very clearly the conscientiousness with which the Legislative carried out its part of the work as regards the establishment of the State Planning Organization.

II THE ALTERNATIVE ORGANIZATIONAL SET-UPS CONSIDERED

An important phase of the studies carried out for the establishment of a Planning Organization concerned the examination of

various proposals. In this section, we shall discuss the three alternative formulations considered before the organization took definitive shape. The final considerations that led to the adoption of the existing organizational set-up will be the subject of the third section of this article

1. Prof. Jan Tinbergen's Proposal :

The first point to be considered was the problem of who would do the actual planning work and to what extent the organization to be set up could be expected to perform this function, given that the country did not possess a group of experts trained in development planning. One solution to the problem could be to engage a team of foreign experts through the technical assistance programs of international organizations The alternative solution involved assigning the actual responsibility for the preparation of the plan to a government office and employing the services of foreign experts within this administrative framework, as dictated solely by the technical requirements of the work. This second solution was found preferable to the first one.

At this time two draft proposals were prepared concerning the Planning Organization to be set up — one by the Middle East Public Administration Institute and the other by the Faculty of Political Sciences With the drafting of these proposals, the preparations entered a new phase

Two memorandums by Prof. Tinbergen, dated June 22nd and 24th, 1960, outline an organization scheme with three principal organs The first of these, the «Advisory Planning Board», would meet several times a year, and its members would be selected from among experts in the fields of economics, planning, trade, and social problems. The Board, which is not a permanent organ of the Administration and has no specific responsibilities, was envisaged as a consultative body that would advise the Central Planning Bureau on planning and development problems

The second organ was the «Central Planning Commission», envisaged as a higher decision - making body composed of Ministry representatives and experts in various fields of economics. It was suggested that the Commission would meet as often as necessary, under the chairmanship of the Director of the Central Planning Bureau, to take the decisions relating to the basic principles of the plan. This participation of the responsible officials of executive agencies in the

preparation of the plan was intended as a means of facilitating the various decisions and plan measures

The third and final organ proposed in Prof. Tinbergen's memorandums was the «Central Planning Bureau», designated to assume the technical responsibility for the plan It was suggested that the Central Planning Bureau be set up under one of the Ministers of State (Minister of Planning), and be attached to the Prime Ministry. Essentially an advisory body, the Bureau was to be charged with the following principal tasks (1) The preparation of Long-term Plans; (2) The preparation of Annual Plans (programs); (3) The study and formulation of the measures necessary to co-ordinate the economic policies of the various Ministries; and, (4) The elaboration of the Regional Plans deriving from the National Plan, and advising on the policy measures to be applied in the various regions.

It was recommended that in the performance of the functions mentioned above, the Central Planning Bureau remain in close contact with the Ministries and with other official bodies, and the Central Bank in particular, taking into consideration their respective viewpoints. The elaboration of the various problems to be brought before the Advisory Board and the Central Planning Commission, and the carrying out of all the related technical work, were to be among the principal functions of the Central Planning Bureau.

It was further suggested that Working Groups be set up for the technical preparations phase, with members to be selected from among experts working for the various Ministries and other public organizations It was considered advisable to restrict considerably the staff of the Central Planning Bureau during the first few years, and to make use, instead, of foreign experts whenever this was deemed necessary.

Later, when the work had sufficiently progressed and the necessary experience had been gained, the Central Planning Bureau would acquire definitive form, with one administrative and four technical sections. These latter would deal with (1) Long-term Plans, (2) Annual Plans, (3) Sector Studies, (4) Regional Plans, respectively

In addition to the Regional Planning Section of the Central Planning Bureau, an Interministerial Commission would also be set up to deal with regional planning problems The former office would be responsible for establishing the necessary connections and coordination between the Regional Plans and the National Plan, while

as a way of rendering this task of co-ordination more effective, it was suggested that the Inter-ministerial Regional Planning Commission should be incorporated into the framework of the Central Planning Bureau, and that it should convene under the chairmanship of the Bureau Director

2. **The Inan Draft Bill :**

In the «Commentary» to this Draft, it is specified that the bill was based principally «on the memorandum, by Prof. J. Tinbergen, dated June 22, 1960, and on the studies conducted with the participation of Mr. Koopman, development expert and Prof. H. McLeod». The main consideration that guided the preparation of this draft was the establishment of an adequate degree of control over the economy while avoiding a plan that would be too imperative or compulsory in nature Consequently, the bill emphasizes that the plan should set out clearly defined targets for the public sector, while for the private sector it would merely undertake the realization of the conditions necessary to ensure the smooth functioning of the market economy Thus, by defining clearly the limits of the public sector, it was attempted to instill confidence in the private sector vis-à-vis the plan

The Draft foresees the establishment of an «Economic Planning Office» within the Prime Ministry. The office would be headed by a State Minister appointed by the Prime Minister for this purpose The functions of the Economic Planning Office were enumerated as follows :

> «The Economic Planning Office will continuously survey the economic resources of the country and will determine the best possible ways for their utilization and development
>
> «The study of resources will indicate the course to be followed for the economic development of the country The projects to be undertaken by the public sector will be determined according to the financial possibilities of the economy.
>
> «The distribution of the resources of the country among the various branches of economic activity will be effected in such a way as to assure the harmonious development of all elements of the economic structure; care will be taken to prevent the undesirable effects that often result from unplanned activity.»[1]

1 Commentary to the Bill, p. 2.

Article 3 of the Draft Bill enumerated the competent organs of the Economic Planning Office as : (1) The General Planning Council, (2) The Co-ordination Council, (3) The Central Planning Office and (4) Specialized Committees

The remaining articles of the Draft Bill specify the functions and responsibilities of these bodies and the interrelations between them. In view of these explanations, the organization scheme of the Economic Planning Office can be reconstructed as shown in **Fig. 1.**

> «The General Planning Council consists of 30 members, renowned for their scientific ability or business success, and appointed by the Prime Minister
>
> «The Prime Minister can make new appointments for one third of the council seats every two years »[2]

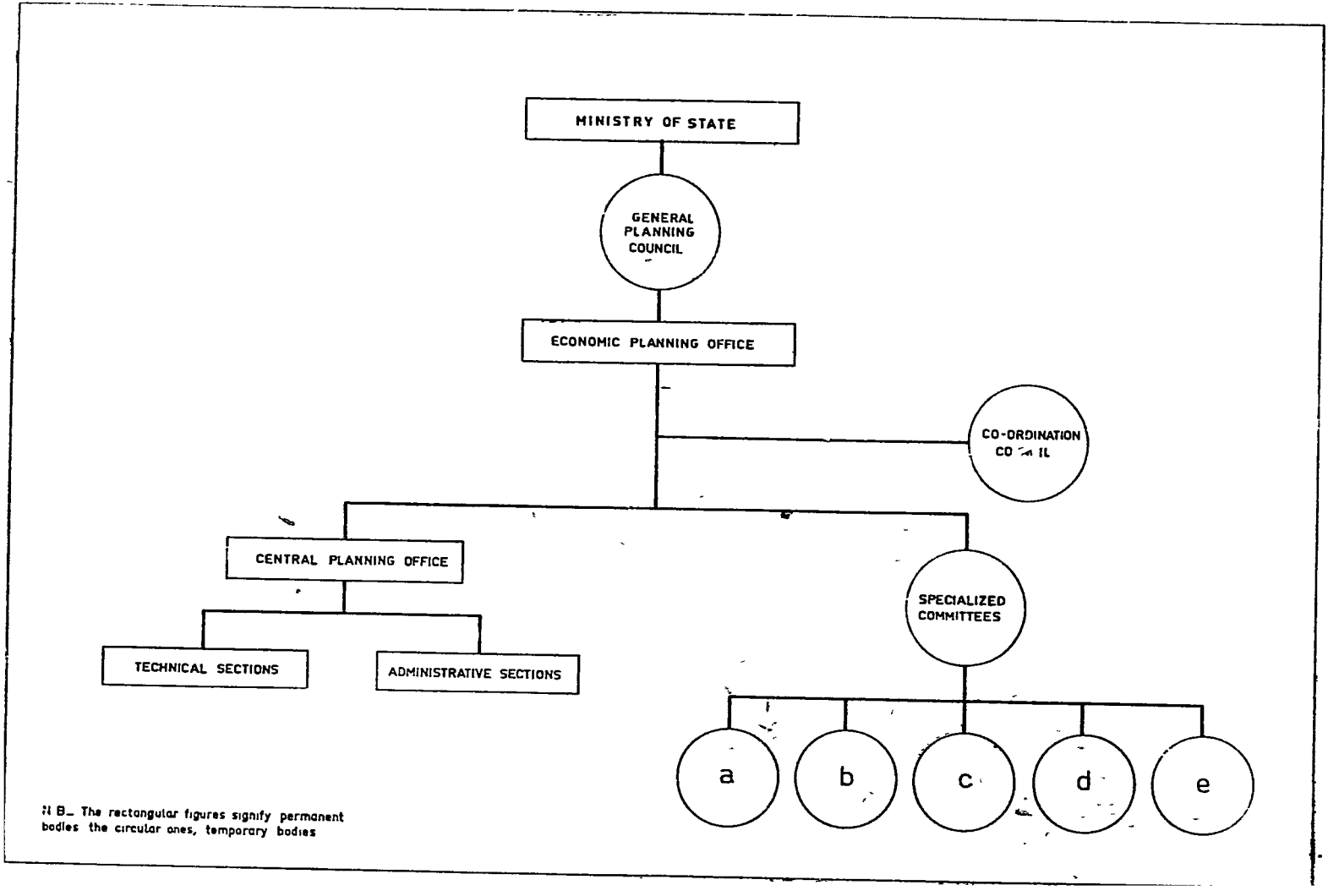
The General Planning Council ordinarily meets once every four months, at the instigation of the related Minister of State and under his chairmanship Its tasks consist in the review of the plans prepared by the Central Planning Office and the evaluation of the recommendations made Thus, a body possessing a temporary nature and formed of members essentially devoid of responsibility, has been conceived as the highest advisory organ

The other important organ is the Co-ordination Council, which meets every month under the chairmanship of the Head of the Economic Planning Office Among the members of this Council are 20 officials occupying top-level administrative posts in economically oriented general and annexed-budget institutions, as well as the General Comptroller, the Director of the Central Bank, and the Secretary General of the Union of Chambers of Commerce and Industry. The Council, which thus has a total membership of 24 together with the chairman, is charged with the examination «of the plans prepared and/or approved by the Central Planning Office, from the points of view of the division of each branch of economic activity between the public and private sectors, the interrelations among the various branches, and the sources of finance»[3], and establishes the co-ordination necessary in these respects. It is difficult to understand why the State Economic Enterprises are not represented at all in this body.

The «Specialized Committees» are composed of «specialized personnel from various public institutions corresponding to different

2 The İnan Draft Bill, Art. 4.
3 Ibid., Art. 10.

Fig. 1 — Organization Scheme of the Inan Draft Bill (pp 50 and ff.):



branches of economic activity, and of other Turkish and foreign personnel to be designated.»[4] As a means of ensuring the necessary co-ordination between the Central Planning Office and the Specialized Committees, at least one expert of the Central Planning Office would be serving on each Committee.

The functions of the Central Planning Office are enumerated as follows in **Article 11** of the Draft Bill :

a) To determine the main outlines and general direction of the General Economic Plan;

b) To form Specialized Committees for the various branches of economic activity and, where necessary, for their subdivisions, within the framework of the General Plan;

c) To decide on the preparation of Regional Plans and/or to integrate the Regional Plans already prepared within the framework of the General Plan, following their inspection and approval in the Specialized Committees;

d) To collect all the information necessary for an effective follow-up of the implementation of the Plans and to make the required adjustments in the light of this information;

e) To maintain close co-operation with the General Directorate of Statistics for the purpose of obtaining the statistical data required for the preparation of the Plans and for the follow-up of their implementation.

«The promulgation of the plans prepared by the Economic Planning Office is effected through their submission to the Council of Ministers for examination and subsequently to Parliament for ratification.»[5]

It is clear that the greatest emphasis in the organization of the Central Planning Office is on temporary committees. An examination of **Staff List No. 1** attached to the Bill reveals the fact that the number of experts to be employed within the Office have been very clearly restricted in accordance with this policy. Of the 66 persons to be employed, for example, only some 20 have been designated as «Experts in Economic Planning». On the other hand, **Temporary Article 1** of the Bill, authorizes the «appointment by contract of a foreign expert as Head of the Economic Planning Office, if this should be deemed necessary».

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4 **Ibid.**, Art 3

5 **Ibid.**, Art 16.

Thus, it becomes apparent that the Office—whose function seems to be conceived as the co-ordination of planning work to be carried out by various organizations, rather than the preparation of the plans per se. — was envisaged as a replica of the French «Commissariat au Plan».

3. The Turkeş Draft Bill :

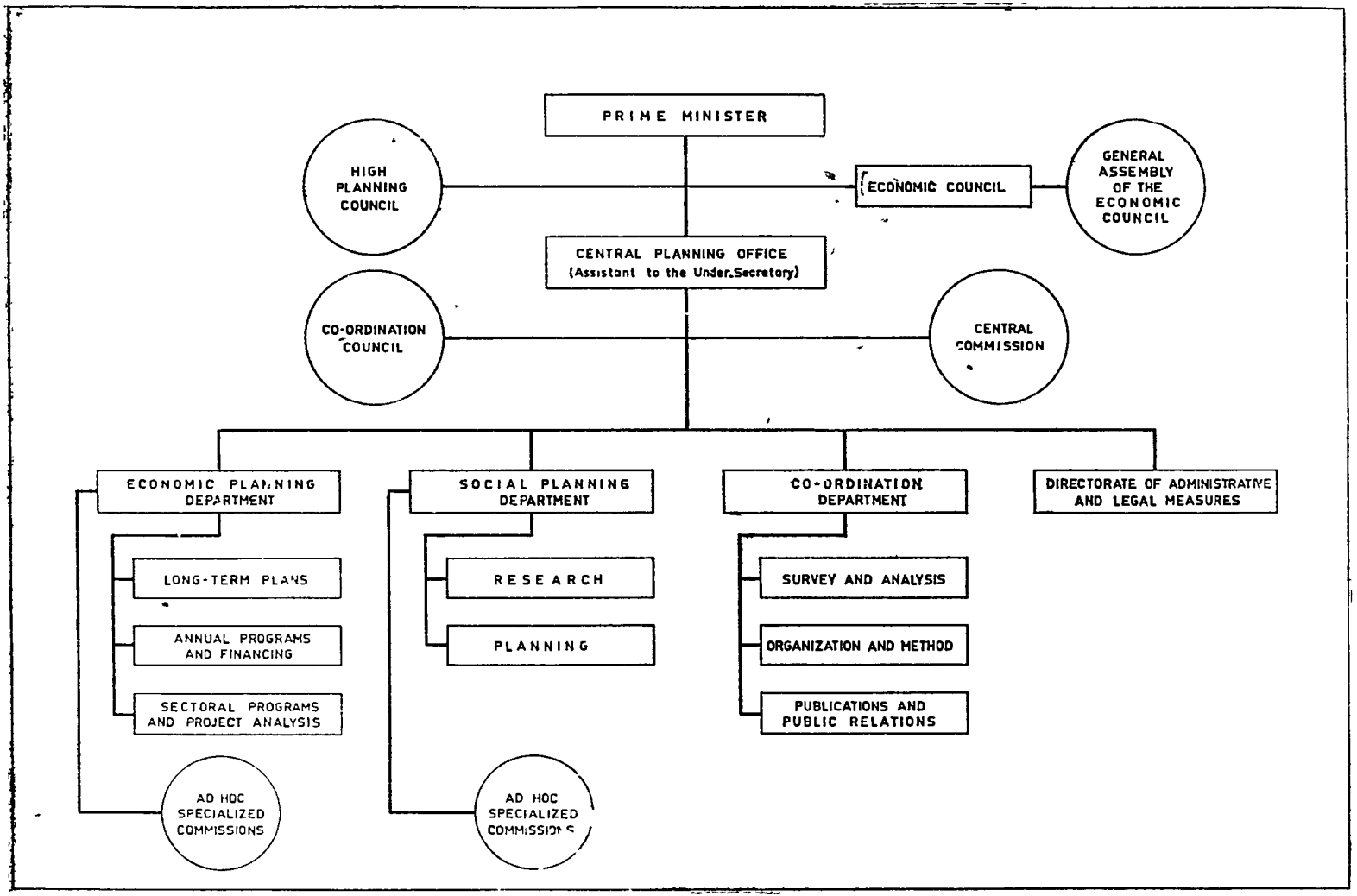
The name of the Bill in question derives from the fact that it was prepared on the initiative of Col. Alparslan Turkeş, the (then) Under-secretary to the Prime Minister; the technical preparation of the Bill is mostly the work of Col. Şinasi Orel. Law No. 91 bears many traces of this Bill The Turkeş Bill puts forth an organization scheme based on three main units : (1) The Economic Council, (2) The High Planning Council, (3) The Central Planning Office.

The Economic Council is, in fact, envisaged as two bodies : the General Assembly, and the Economic Council proper The Economic Council consists of five members and functions as a permanent body in higher advisory capacity within the Prime Ministry The members are appointed by the Council of Ministers — two from among four candidates nominated by the Inter-university Council, and another two from among the four nominees of the General Assembly of the Economic Council, the fifth member, who is also the chairman, being designated by the Prime Minister The Economic Council is envisaged as an independent body of high status, and, as such, will undertake to define its principles and procedures of work itself Among its functions are, «to represent public opinion in the High Planning Council; to help in the assimilation, by the public opinion, of the National Plan, to conduct research in economic and social fields; to convey the resolutions of the General Assembly to the High Planning Council, and, in turn, to inform the former of the resolutions taken in the High Planning Council; to survey the overall developments in the economy of the country, to enlighten public opinion on this point, and to ensure and supervise the implementation of the long-term National Plans; and to give its opinion on economic and financial legislation.»[6]

The administrative work of the Council will be carried on by a Secretary, with a sufficient number of clerks working under him. In order to perform the above functions, the Economic Council will establish close contact with Universities, other scientific and tech-

6 The Türkeş Draft Bill, Art. 8

Fig. 2 — The Organization Scheme of the Türkeş Draft Bill



nical institutions, and all government offices and private establishments, as well as with international organizations.

The General Assembly of the Economic Council is a body consisting of the representatives of various organizations and offices, and meets at least once a year, on the invitation of the Head of the Economic Council. **Article 9** of the Bill gives the composition of the General Assembly as follows :

a) Members of the Economic Council;

b) Four representatives from the Central Planning Office;

c) Five representatives to be selected by the Inter-university Council;

d) The Presidents of the Chambers of Commerce and Industry of towns with populations of more than 150.000; the Secretary General of the Union of Chambers;

e) The Chairman of the Union of Banks and five members to be elected by by the Union;

f) The President of «Turk-İş» (The Turkish Confederation of Labour) and five members to be elected by «Türk-İş»;

g) Three editors-in-chief of three prominent news-papers—one each from Ankara, Istanbul, and Izmir;

h) The Chairman and rapporteurs of the Economics, Commerce, Finance, Labour, National Defence, Industry, and Agriculture Commissions of the Legislative Branch;

i) Five teachers from the Turkish Confederation of Teachers' Societies;

j) Seven representatives to be elected by the Union of Chambers of Agriculture;

k) Five representatives to be elected by the Confederation of Artisans' Societies;

l) The Chairman or Secretary General of the Union of Chambers of Engineers and Architects;

m) The Chairman of the Union of Chambers of Physicians.

Total membership of the General Assembly is thus around 70. The functions of the General Assembly are enumerated as follows in **Article 12** :

a) To convey public opinion as regards the preparation and implementation of Long-term Plans to the Economic Council and, thus, to the High Planning Council.

b) To conduct studies on the Annual National Plans at the end of each financial year, and to submit its requests to the Economic Council.

The second organ proposed by the Türkeş Bill is the «High Planning Council» The Council, which has a total membership of 15, comprises 6 ministers — including the Prime Minister —, the Head of the Planning Commission of the Legislative Branch, the five members of the Economic Council, and three representatives from the Central Planning Office Thus it was intended that of the 15 members, 7 should be political personalities and the remaining 8, technical experts The functions of the High Planning Council are the same as those subsequently assigned to the High Planning Council through Law No 91, the only difference being that here the Council has also been made responsible for arbitrating in those disputes which arise between the Heads of the Social Planning Department and the Economic Planning Department and which the Central Commission is unable to solve

The Central Planning Office has been envisaged as a body consisting of six sections, meeting under the chairmanship of an Assistant to the Under-secretary These sections are : (1) The Central Commission, (2) The Co-ordination Council, (3) The Economic Planning Department, (4) The Social Planning Department, (5) The Co-ordination Department, and (6) The Directorate of Administrative and Legal Measures The first two sections are **ad hoc** committees

The Central Planning Office is responsible for the preparation of long-term and annual plans and regional plans, and for the follow-up and evaluation of implementation.

The Central Commission is charged with the task of harmonizing and unifying the work of the Economic and Social Planning Departments. The Commission, under the chairmanship of the Assistant to the Undersecretary, comprises the Heads of the Economic and Social Planning Departments, an expert from each of these departments, the Director of Administrative and Legal Measures, and the General Director of the Central Bank The aim here has been the establishment of inter-departmental co-ordination.

The Co-ordination Council is formed of «The Assistant to the Undersecretary, the Head of the Co-ordination Department, the Under-secretaries of the related Ministries, and the General Directors or Heads (or representatives of an equivalent hierarchical level) of

Public Administrations or Offices. Its function is the examination of problems that arise in the course of the implementation of the plans and programs and to determine the measures to be taken by the relevant Office and Administrations »[7] This Council was set up with a view to facilitating the follow-up, evaluation and co-ordination functions of the Department of Co-ordination, by bringing about clarity and mutual understanding within the Administration.

The organizational set-up and functions of the other Departments are as envisaged in Law No 91, which regulates the actual organization existing today.

The name selected for the organization was, «The National Planning Organization.» As stated in the Commentary to the Bill, the principal reason for this choice was the fact that the economic and social aspects of planning were considered in close connection with each other, so that the plans to be prepared would be one consistent whole.

4. The Modified Orel Bill and its Enactment :

On August 5, 1960, the Türkeş Bill was submitted to the Council of Ministers for examination. Following a preliminary study, it was returned for the modification of certain points, prior to re-assessment. At this stage of the studies, Assoc. Prof. Dr Nejat Bengül (deceased) and Dr Atilla Karaosmanoğlu also participated in the revision activities The principle modifications carried out in the first draft, within the framework of the general indications of the Council of Ministers in this connection, were the following :

The «Economic Council» was deleted from the Bill, on the grounds that it was a separate organization and consequently required a separate Act

The «Central Planning Bureau» was transformed into the «Central Planning Organization», which was placed in charge of an «Under-secretary of Planning» directly attached to the Prime Ministry An «Assistant to the Under-secretary» and a «General Secretariat» were envisaged as the auxiliary personnel to the Under-secretary

«The «High Planning Council» was transformed to include eight members, of whom four would be Ministers and four, technicians. One of the technician-members would also be a member of the Economic Council to be set up separately.

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7 Ibid., Art 22

The «Directorate of Administrative and Legal Measures» was transformed into a «Financial and Legal Measures Section» attached to the Department of Co-ordination. The «Organization and Method Section» of the Department of Co-ordination was abolished, and it was found sufficient to charge the Department itself with these functions, in practice

The name of the organization was accepted as «the National Planning Organization».

Following these modifications, the Bill was submitted to the Committee of National Unity, as the government Bill. The main modifications carried out by the Committee are as follows :

It was stipulated that the Prime Minister should exercise his prerogatives concerning planning through the offices of the Deputy Prime Minister (Thus the Office of the Deputy Prime Minister received legal support and identity for the first time since its **de facto** establishment).

The «Economic Council» member on the «High Planning Council» was taken out of this body, on the grounds that no such establishment existed, and was replaced by the Head of the Department of Co-ordination

The post of «Assistant to the Under-secretary for Planning» was abolished, on the grounds that the existence of a high-level official, superior to the Department Heads but not on the «High Planning Council», would create numerous problems.

The name of the organization was changed to «The State Planning Organization».

Article 20 of Law No 91, which previously had not existed in the Bill, was now incorporated as a proper article of the Planning Bill, thus enabling the organization to have recourse to contracts with Turkish or foreign persons or institutions, in connection with problems concerning research, studies, project surveys, etc.

III. THE STRUCTURE AND BASIC WORKING PRINCIPLES OF THE STATE PLANNING ORGANIZATION.

As will be clear from the account given above, the creation of the State Planning Organization has entailed a great deal of intensive

activity, albeit over a short period of time. In fixing the final organizational scheme, it was attempted to specify duties and responsibilities as clearly as possible, and to ensure the maximum of correspondence between the functions of the organization and its position within the Administration. The resulting organizational scheme is given in **Fig. 3.**

In order to give a clear idea of the structure and basic working principles of the State Planning Organization, it is necessary to examine the High Planning Council and the Central Planning Organization, and their working principles.

1. The High Planning Council :

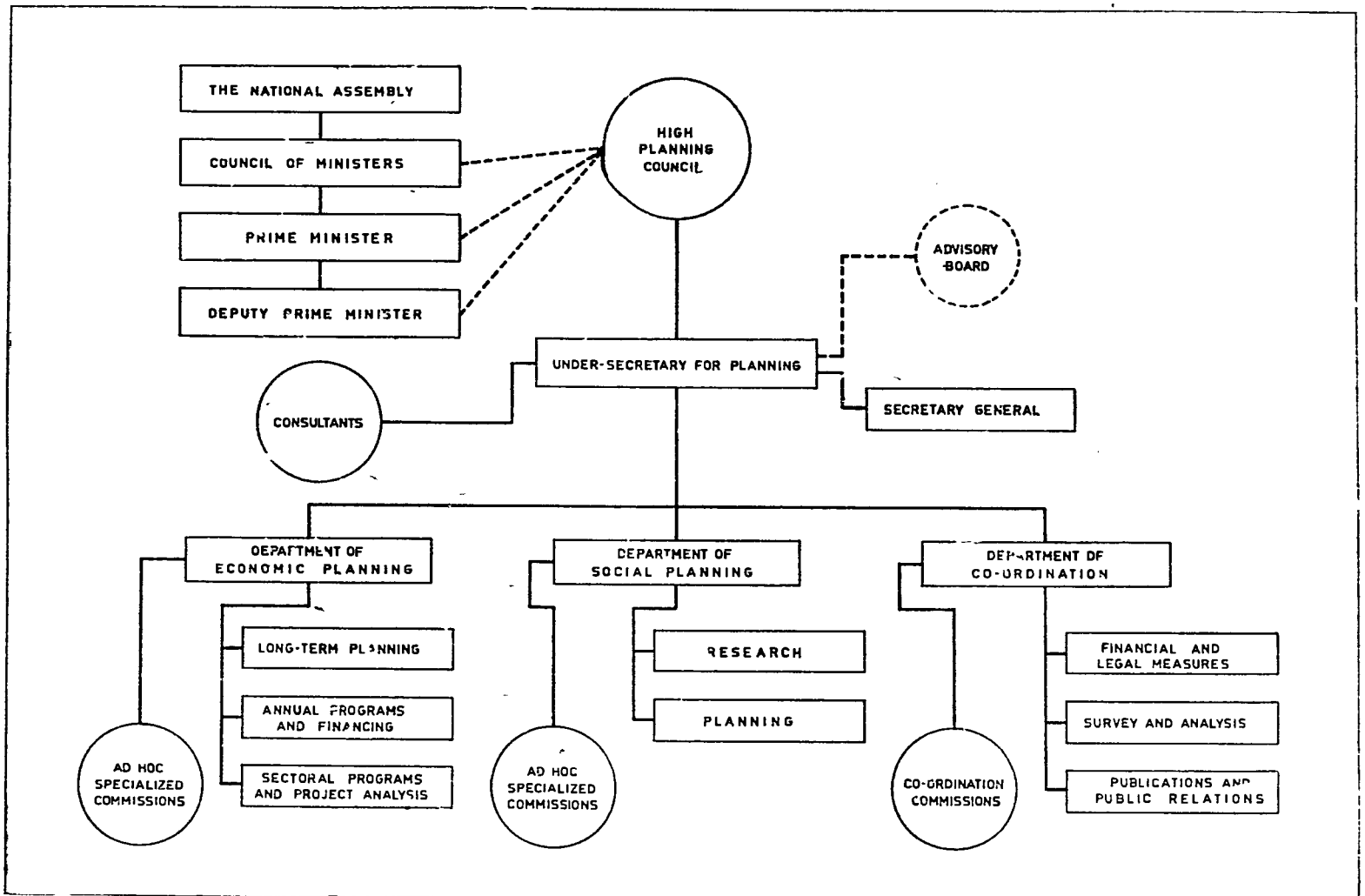
The Law for the establishment of the Planning Organization states that the organization is made up of the High Planning Council and the Central Organization. **Article 4** of the Law indicates the organization and functions of the High Planning Council in the following words :

> The High Planning Council; is composed of the Prime Minister (or Deputy Prime Minister), three Ministers to be elected by the Council of Ministers, the Under-secretary for Planning, and the Heads of the Economic Planning, Social Planning, and Co-ordination Departments
>
> The functions of the Council are to aid the Council of Ministers in the determination of the objectives of economic and social policy, and to examine the plans to be prepared from the points of view of their concordance with determined objectives, and their adequacy (in terms of relevant targets and measures).

As stated in the above quoted article, the High Planning Council consists of four Ministers and four technican-experts. Thus, the Council is a higher decision-making body of the State Planning Organization and a high advisory organ for the Government.

In cases falling outside the realm of its authority or where there is cause for indecision, the Central Organization will take the problem to the High Planning Council. The High Planning Council will make the final decision on the subject. in the event, however, that the Council judges itself incompetent to treat the matter it will be referred to the Council of Ministers with the relevant commentary and recommendations.

Fig. 3 — The Organization Scheme of the S.P.O.



Source : «Planlama», Publications of the S.P.O., No. 1

In taking the final decisions regarding the carrying out of planning functions, as well as in the recommendations to be made to the Council of Ministers, the High Planning Council is to give consideration to all the related political and technical exigencies of the problems studied. In other words, all decisions taken by the Council will have a political and a technical aspect. On the other hand, the political orientation and content of the decisions should concur with the viewpoint of the Government, and it is in order to ensure this particular point that the Prime Minister, who is principally a political personality, has been named Chairman of the Council, with three other Ministers participating as members Expect for those instances where they have expressed personal opposition, or totally abstained, in relation to decisions, the Chairman and the Minister-members of the High Planning Council are to act, whenever necessary, as spokesman or defender on the subjects submitted to the Government for approval, since these involve decisions in which they have participated This arrangement makes of the Prime Minister and the three Minister-members, a sort of «inner cabinet» which prepares draft proposals for the Council of Ministers

The Under-secretary and the three Heads of Department of the State Planning Organization are responsible for specifying the technical content and preparing the relevant commentaries for the subjects that are to be discussed in the High Planning Council. Thus, the technical quality of the decisions to be taken in the Council will be very closely related to the preparatory work undertaken by the Heads of the Economic Planning, Social Planning and Co-ordination Departments, in economic, social, and implementation problems respectively The responsibility for the technical adequacy and consistency of the decisions rests with the technician-members of the High Planning Council

During the Plan period, there will be many instances in which the High Planning Council will be obliged to reach a decision, as for instance in the case of the preparation of the Long-term Plan, the Annual Programs, and the Regional Plans, or in the solution of the problems encountered during the implementation phase, or in connection with the changes to be effected in the Plan or Annual Programs, as well as in the taking of the related co-ordination measures. Thus it may be required for the Council to meet often — every day if necessary Indeed, the Indian High Planning Council has accepted the practice of meeting every day, excepting extraordinary circumstances. In Turkey as well, the High Planning Council has been

conceived within an organizational set-up which would permit its meeting daily and taking decisions with speed and efficiency; it is evident that the implementation of the Plan would meet with great difficulties, should these considerations of ease and speed in decision-making be neglected.

2. The Central Planning Organization :

The Central Planning Organization has been envisaged as an Undersecretariat of the Prime Ministry. It is a well-known fact that in certain other countries the planning organization has been conceived either as a Ministry or a General Directorate affiliated to one of the Ministries The sole reason why this has not been the case in Turkey was the desire to formulate the concept of planning in such a way as to cover the whole of the economy. This approach implies the necessity of envisaging social problems within a long-term perspective Thus planning takes on the characteristic of an overall public service extending to cover all of the social life and including all branches of administrative services, rather than that of an isolated administrative function among others. Considering that the Government is responsible for carrying out all State activities, and that the Prime Minister — in his function as chief co-ordinator — has to assure a harmonious and co-ordinated administering of the services offered by the various Ministeries, the Organization has been set up as a technical body within the framework of the Prime Ministry. There are, then, two Undersecretariats under the Prime Ministry; one of these is responsible for the administration and day-to-day management of the offices and general directorates within the Prime Ministry, while the other has the function of preparing plans conforming to economic and social policy decisions, and of ensuring the necessary co-ordination in their implementation. The law authorizes the Office of the Under-secretary to be affiliated to the Deputy Prime Minister responsible for planning activities. In this case, the Prime Minister will have delegated his above-mentioned functions of the co-ordination of implementation to the Deputy Prime Minister.

a. — The Economic Planning Department. — Article 7 outlines the duties of this Department as the preparation of Long-term Plans, Annual Programs, and Regional Plans and Programs The Department is further responsible for the preparation of Sector Programs and the evaluation of projects.

Long-term Plans are considered in two different groups. In the first group are what are called «Perspective Plans», which are not

official documents but rather a formulation of the technical studies undertaken as part of the planning activity: Perspective Plans make it possible to envisage and evaluate the other plans and programs within a longer-term perspective. Population and urbanization movements, education, health and housing problems, as well as large infra-structure investments, can only be appreciated properly when they are considered within such a long-term perspective. Thus, the preparation of the First Five-Year Plan was undertaken within the framework of a fifteen-year perspective plan.

In the second category of Long-term Plans are the Five-Year Development Plans These plans undertake the examination of the various sectors, after the general balances of the economy have been determined, and after future investments and production volumes have been estimated as a function of the entire economy and in such a way as to meet the requirements of the next five years. Five-Year Development Plans are also to indicate the solutions to the financing and other implementation problems that arise within the five-year period. These plans are prepared by the Central Planning Organization, in accordance with the targets and strategy determined by the Council of Ministers After having been examined by the High Planning Council as regards its compliance with the plan targets and strategy, the draft proposal of the Organization is submitted to the Council of Ministers, and following its approval in this body, to the Parliament, its final form pending the ratification of the Legislative.

Due to the fact that it is a legal document based on the prerogative of Parliamentary disposal, the Development Plan is binding for the Government and the Administration, as well as for Parliament itself. This characteristic of the Plan is based on the last clause of **Article 129** of the Constitution . **Article 129** of the Constitution states that «the establishment and functions of the State Planning Organization, the principles of the Plan, and the measures to ensure the prevention of changes to harm the integrity of the Plan; are to be the subject of special legislation.» These measures have been established through Law No. 77 mentioned above, in a clear and restrictive manner. Further, the Legislative Branch has accepted it as a working principle to examine exhaustively, through a special procedure, all proposals and drafts relating to the Plan, and to stay possible approval until such examination. On the other hand, the binding nature of the Plan for the Government and the Administration is based on **Article 41** of the Constitution, as well as on the fact that planning is a legislative activity.

The Annual Programs are prepared by the Economic Planning Department of the Central Planning Organization and are submitted to the Council of Ministers, after being examined by the High Planning Council from the point of view of their concordance with the Five Year Plan and the Strategy; they assume final form through a decree of the Council of Ministers In the Annual Programs, which are more specific than the Five-Year Plan, public sector investments are detailed down to project level. The fact that sector investments are examined within the context of Annual Programs rather than in the Five-Year Plan, contributes to the flexibility required. Needless to say, although they are issued finally by the Executive Branch, it remains a legal necessity for Annual Programs to conform to the exigencies of the Five-Year Plans

The preparation of Regional Plans is also among the tasks of the Economic Planning Department. During the preparation of these plans, the Economic Planning Department is required to establish close co-operation with the Ministry of Settlement and Reconstruction. Regional Plans have not as yet been elaborated on a nationwide scale, but rather have remained confined to a few individual projects

The Economic Planning Department carries out its functions through the activities of its three sections: the Long-term Plans Section, the Annual Programs and Financing Section, and the Sector Programs and Project Analysis Section In addition to these sections, «Ad hoc Specialized Commissions», formed of experts and other persons in responsible positions — in the various offices of the Administration and of other establishments — have aided the Department, especially during the prepation of Sector Plans. The number of experts who have thus contributed to the preparation of the First Plan by working in the various Specialized Commissions, is approximately four hundred

b. — The Social Planning Department. — This Department was set up parallel to the Economic Planning Department, in accordance with the conviction that the development process entails a modification of the social structure Indeed, the aim of a development policy is the transformation of a poor and static society into a wealthy and dynamic one, and the raising of the living standards of the people. This process of transformation not only has certain social conditions, but also brings in its wake a number of social problems. Thus the functions of the Social Planning Department are : (1) The

formulation of the most appropriate means of intervention by determining those social variables that will facilitate the realization of economic development; (2) Studying existing social problems and looking for ways of solving them; and (3) Anticipating new problems that are bound to arise as a consequence of the development process, with a view to incorporating these findings and solutions in the Plan, in an appropriate manner.

Attached to this Department, are a Research Section and a Planning Section. The former is principally responsible for carrying out research in such areas as employment, education, health, housing and urbanization, while the latter body is charged with the task of relating these research findings to the work of the Economic Planning Department and to the general principles of the Plan, with a view to determining the problem areas and the means and measures for their solution.

Further, the Department has the possibility of making use of the services of Ad Hoc Specialized Commissions, whenever this is deemed necessary, to deal with subjects falling into its domain.

c. — **The Co-ordination Department.** — Unlike the other two, this Department deals with Plans and Programs already in the implementation stage, and is responsible for examining the problems that arise at this stage, as well as for taking and/or recommending the necessary measures for their solution As is known, the Planning Organization is responsible for the preparation of the Plan only, and not for its implementation. In order for the Plans prepared to be amenable to implementation, however, it will be necessary to study the pre-conditions of implementation and to make recommendations for the elimination of factors that will retard or harm implementation The Department of Co-ordination is further responsible for aiding government offices and other establishments taking part in implementation, and for evaluating implementation activities. **Article 9** of the Law enumerates the functions of this Department as follows :

a) To determine and recommend the administrative, financial and legal measures that will ensure the realization of Plan measures in the public and private sectors;

b) To effect the necessary follow-up and co-ordination activities during the implementation of the Plan, and to form, whenever necessary, committees of the related high-level representatives of various offices and organizations, for this purpose;

c) To compile and evaluate the Quarterly Reports on implementation, prepared by the various executive bodies, and to submit the results to the relevant authorities; to follow up on the measures designed to ensure harmony and unity in implementation;

d) To give priority to research on questions of organization methodology, in fields where the implementation of Plans and programs is deficient».

There are three Sections related to this Department. They are (1) The Financial and Legal Measures Section; (2) The Survey and Analysis Section; and (3) The Publications and Public Relations Section

The Department may also form «Co-ordination Commissions» by inviting responsible members of the various offices participating in the implementation of the Plan, with a view to profiting from their knowledge, experience, and recommendations.

d. — The General Secretariat. — The Secretary General assists the Under-secretary in the organization and supervision of administrative work. The training programs of the personnel, the direction of the library, and the trnaslation work, are among the responsibilities of the Secretariat. The secretaries, translators, librarians, and other auxiliary personnel, as well as the Directorates of Personnel and Administration, are all under the Secretary General.

IV. PERSONNEL QUESTIONS

Underdeveloped countries are poor not only from the viewpoint of physical wealth and income but also as concerns qualified manpower. Among personnel whose shortage usually makes itself felt are the planning experts, especially during the early phases of planning. Indeed, when the State Planning Organization was set up on September 30, 1960, this was the first problem that had to be dealt with.

The pressure from the government on the one hand, and from public opinion on the other, made it an unavoidable necessity to begin planning work at once Since the training of a planning expert is a matter of time however, the problem required a combined solution, with temporary and permanent aspects. The temporary solution found, entailed making use of the services of persons working in other government offices and organizations as well as of foreign experts; the permanent solution consisted in finding and training experts to form the «staff» of the State Planning Organization. Law

No. 91 provides the Organization with the maximum possible flexibility in the recruitment of personnel. Thus the Organization has the possibility of employing Turkish and foreign experts on a contract basis, without being in any way subject to the financial regulations of the State Personnel Regime (**Art. 17**). Another possibility is provided in **Article 19** of the Law which authorizes the participation of University teaching staff in the work, whenever necessary. A third provision states that it is possible to delegate the functions of carrying out research and project evaluation to individuals or corporate bodies, on a contract basis. In addition to these, there is the possibility of asking for co-operation from international organizations dealing with technical assistance During the first years of the Plan period, all of these possibilities were used in combination.

The attempt to make use of the services of young University teaching staff members— working in the chairs of economics, public finance and social sciences— met with approval, and the Faculties of Economics and Political Sciences in particular, were glad to grant the necessary permission, even when this involved a considerable drain on the chairs in question, The same may be said for other Faculties and educational institutions. The Ministry of Finance, the Ministry of Agriculture and many other Ministries and government offices made available the services of their most qualified and experienced personnel, either by granting them special leave, or by transferring their prerogative on the compulsory service of these personnel to the State Planning Organization Certain private organizations such as the Turkish Industrial Development Bank also gave permission to their personnel for temporary employment at the State Planning Organization Finally, the General Staff itself gave leave to more than forty economists, public finance experts, and engineers— then doing their military service — for employment by the State Planning Organization At the same time, the permanent positions were gradually being filled by persons possessing the necessary qualifications and desiring to work for the Organization

Obtaining foreign experts proved to be a more difficult task. The policy of the Organization was oriented towards the employment of persons with a real knowledge and experience in the fields where there was need for the services of foreign experts, further it was intended to obtain these experts principally through the various international organizations involved in technical assistance activities. To this end, a joint meeting was called, at the State Planning Organization, of the representatives of the principal technical assistance

organizations active in Turkey, and the needs and requests of the State Planning Organization were outlined to them. It was explained that the experts sent would be required to take preliminary interviews, that they would be employed with the same legal status as the Turkish personnel, and that furthermore the final responsibility for the preparation of the Plan would lie with the State Planning Organization itself Representatives of two of these organizations explained that if the State Planning Organization should envisage delegating the responsibility for the Plan to a team of experts, they would be ready to organize such a team, but that it was contrary to their principles to send out individual experts. The United Nations representative, however, declared that his organization was prepared to send experts in accordance with the scheme proposed by the State Planning Organization. Thus during the first few years, no changes were made in the employment conditions stipulated in this first joint meeting, and foreign technical assistance was received only from the United Nations and affiliated bodies

The Turkish and foreign experts were assisted by a number of young «research assistants» with a good knowledge of a foreign language Thus it became possible to start planning work as early as the end of 1960

While the early, urgent requirements of the Organization were being met in this manner, a body of permanent staff was gradually being formed, by offering employment -- through a series of competitive examinations — to young University graduates as «assistant experts» These assistant experts would then be sent abroad to be trained as planners to serve the Organization in the long-term; this measure was implemented without failure in spite of the pressure of short-term needs Consequently, while preliminary planning work was being carried out, only a very few of these assistant experts were available The first of the above mentioned competitive examinations took place in November 1960, and almost all of the successful participants were sent to foreign countries in 1961. The Table below gives the average numbers of permanent personnel according to years

The numbers of personnel employed on a temporary basis were also quite high, especially during the early years. Thus in 1961, for example, while there were only 64 persons occupying permanent positions, the total number of personnel reached 157 during the first six months of the year [8] The experts who worked in the Ad hoc Spe-

8 Planning, S P O Publications, No 1, p 19.

PERMANENT STAFF OF THE S P O, 1960 - 1966

Years	Technical Personnel	Administ. Clerical Personnel	Auxiliary Personnel	Total
1960	13	6	3	22
1961	42	15	7	64
1962	40	54	10	104
1963	46	58	10	114
1964	43	63	13	119
1965	71	78	23	172
1966	82	130	28	240

cialized Commissions, and whose numbers went up to as high as 600 at some stages, are not included in these figures.

V. FINAL CONSIDERATIONS

The Turkish State Planning Organization has a past covering a period of six years. The work carried out during this period consists of the submission of a general memorandum to the government (for the year 1961), the preparation of a Transition Program (for the year 1962), and the drawing up of one Long-term Plan and four Annual Programs

While the Organization was first being set up, it had been envisaged as a small and effective unit that would assist in the determination and implementation of economic and social policy through close contact and consultation with the upper echelons of the Government.

In the past six years, however, the Organization has not been able to stabilize its position within the Turkish Administration; it has not, so to speak, «found its place». The high rate of turnover of personnel, especially at the upper levels, and the fact that the discipline required in this kind of work was never really established, may be given as the principal causes for this state of affairs Thus among higher personnel who resigned their posts for various reasons, are four Under-secretaries, four successive Heads of the Economic Planning Department, and three successive Heads of the Co-ordination Department A similar turnover of personnel has been witnessed among the technical staff, and especially among experts.

Considering that planning is a principal means of escaping the stigma of underdevelopment, it is our fervent hope that the State Planning Organization will speedily acquire the stable and responsible position it deserves within the administrative mechanism.

IV

METHODOLOGICAL BACKGROUND OF THE PLAN

by
J. TINBERGEN *

In this article the main features of the planning methods used in the construction of the First Five-Year Plan will be set out. In the present context, the word «method» refers mainly to the scientific techniques used in establishing the Plan figures. It should be clear from the outset that practical planning work can hardly ever be based on one single method, but that information and insight from all available sources have to be used. This is partly due to the great lacunae in our knowledge of the development process, and partly to the gaps in statistical and other factual information. In the final analysis, the use of all available information is a question of common sense; it is part of an endeavour to keep the scope of uncertainty in the outcome as restricted as possible. In fact, everybody who has had some contact with the problem of planning the development of a society knows that the art is still in its first stages and that despite all possible care, the possibilities of error remain large indeed.

Apart from the problem of having to cover largely unknown ground, the construction of a plan is in itself a very complicated matter : The number of phenomena and relationships involved is very large This calls for much simplification on the one hand, and for a process of planning in stages on the other. At the time of the preparation of the First Five-Year Plan — the years 1960 - 1962 — it

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was usual to think in terms of three stages in particular, known as the macro, the sector and the project stages The activities undertaken in these stages were mainly directed at obtaining a picture of the most desirable «future structure» of the economy, in the sense of its composition according to sectors or branches. The geographical aspect, nowadays symbolized by the addition of a spatial dimension, did not yet receive any systematic attention, although the single projects were of course located somewhere.

The three stages mentioned are not indicative of a one-way logic, however : Results from the sector stage were used to correct the macro-stage, and results from the project stage were used to correct the two other stages. The use of such a process implies that the results will be based on a continuous trial and error procedure and cannot be established linearly, nor once and for all However, our exposé will be simplified in order to keep the picture as clear as possible

The whole operation started with the collection of a number of figures for the period 1950 - 1962 and, later on, more particularly for the year 1962 In some cases, longer series were available, for instance for population, literacy, and trade.

The macro-stage proper of the planning operation started with an attempt at choosing some key figures for national income, investments, consumption, and the balance of payments for the period to be covered by the Five-Year Plan, that is, the period 1963 - 1967. The choice was based on an estimate of the capital-output ratio which, from the figures then available, seemed to have been close to 2.7 over the period since 1950. In view of the high rate of population increase, estimated to be about 3 per cent per annum, and in view of the desire of the Turkish Government to reduce the gap in per capita income between Turkey and Western Europe, a rate of growth of real income of 7 per cent was suggested by the S P.O. to the Government and later approved by both the Government and Parliament This target has been reconfirmed by all later Governments and Parliaments involved

With the aid of a simple Domar-Harrod model, an investment volume of 18 per cent of national income was found to be necessary. With foreign aid at about 4 per cent of national income, this meant that the country's own savings should be brought up to 14 per cent from the initial level of about 11 per cent. Several of these figures were later revised and replaced by trends during the Plan period.

In the macro-stage it was further attempted to determine the volume of imports corresponding to the projected levels of consump-

tion, investment and income, using a subdivision of imports into three categories, namely finished consumer goods, finished investment goods, and raw materials (including semi-finished products). The relationships used were simple correlations tested with the aid of the then available statistical figures for the period since 1950 Attempts were also made to estimate the exports of some of the traditional exports in order to have a first crude check A somewhat more precise determination of the balance of payments figures to be aimed at could only be undertaken at the sector stage

The sector stage was essentially based on a simplified input-output model For this purpose the economy was subdivided into some twenty sectors The choice of sectors was partly based on their past and present and partly on their possible future importance for the Turkish economy The main simplification consisted in the assumption, on a-priori grounds, of a considerable number of zero coefficients In fact, the flows of goods were assumed to consist of the main supplies to each industry only; 'construction' having as its inputs building materials only, 'textiles', their raw materials — cotton or wool — only, 'food industries', inputs from agriculture only, etc. The activities of some sectors such as energy transportation, and trade, which supply their products to almost all sectors, were simply assumed to develop in relationship with total national income. In this way, although a much simpler system of equations is obtained than for the more complete input-output tables, it remains possible to keep track of the more important interrelations between sectors.

At the time the First Five-Year Plan was prepared, the idea of distinguishing domestic from international industries had not yet come up, and most plan figures were based on demand estimates for home sales and for exports For some new sectors, however, production capacity was taken as the basis for future activity; agriculture was treated in this manner Here, much information of a more or less autonomous character was obtained from some forty committees, composed of civil servants and representatives of business, requested to report on the possibilities of expanding a number of industries in which Turkey would presumably have comparative advantages. These committees were established after the example of the French 'Commissariat au Plan', where this form of co-operation has been applied ever since its foundation after the war.

Among the sectors considered were also a number of social sectors· education, health, and community development. A very careful study was made of the manpower requirements to be expected

in the various industries (in the widest sense of the word) and of the educational efforts of all types needed in order to meet these requirements. Although they are now in widespread use, the techniques now generally applied for this purpose were quite new at the time, when such studies had hardly been made at all This means that coefficients were derived, from production and census data, indicating the numbers of people, with different kinds of training and schooling, needed per unit of output in each industrial sector. Next, the total manpower needed in future years was estimated on the basis of the production volumes aimed at. From these totals, the net increase required was derived, for a series of consecutive time points. To these were added the losses in manpower to be expected from death or retirement, leading to the gross increases required. These then have to be supplied by the educational system and represent the outputs of that system From the outputs, the inputs needed at the beginning of any educational cycle were estimated, keeping account of the fall-out observed during the process These fall-outs themselves would add to the availability of simpler types of manpower. Also the necessary numbers of teachers, buildings, and equipment were derived from the projected outputs and inputs of pupils, on the basis of observed and adjusted coefficients.

Plan figures for the health sector were based on interregional comparisons The choice of targets for the medical care of the population is somewhat arbitrary, and no general data are available at the moment to make the choice more satisfactory from a scientific point of view This, by the way, applies to the other social targets as well, except where a rigid complementarity with economic development is assumed, as in the case of education Even there, the rigidity assumed does not exclude an element of choice. As we have said above, for medical care the degree of arbitrariness is larger; yet, an interregional comparison of the number of doctors per thousand inhabitants or the number of hospital beds per thousand inhabitants shows such large differences between the regions of Turkey that some indication of the first priorities can be derived from them.

The arbitrariness of the choice of targets for community development is greater still. All these fields require more systematic research of the type that has been started in the United Nations Institute for Social Development these last two years. At the time of the preparation of the First Five-Year Plan for Turkey no other possibility than a more or less intuitive choice was available

Thus, a set of figures for what was believed to be the most desirable development of the sectors was arrived at. The Plan was

submitted to the Government and to Parliament, and the final responsibility taken by the latter.

Of course, this approval was only asked after the Plan had been completed; the project phase had first to be added. By far the greatest effort and the most extensive documentation were required for this phase Already on the occasion of my first visit to the country, I had pointed out to the Government that this part of the work would necessitate the longest time, and that consequently the Ministries concerned should be requested to start the collection and pre-analysis of project material at once Even so, it was the general feeling, at the completion of the Plan, that this part of the work was weaker than the other parts

It is a general experience that the collection of good projects is the most difficult task of any planning agency. The collection of data on projects requires the co-operation of a large number of technical experts with different backgrounds (such as geologists, agronomists, engineers); entrepreneurs; social experts from different fields, business economists and general economists. The role of the economist is only a modest one; he may be expected to act as a co-ordinator, and he is the expert on the question of the appraisal of projects for inclusion in the Plan. An important question to be solved from the start is the collection of data with methods ensuring the greatest uniformity possible Moreover, the data must bear on those aspects of the projects which are the most relevant for the final selection This means that two sets of data are important: (a) data concerning the objectives of the development policy of the government and (b) data on the scarce factors of production needed for the execution of the project in question. In the case of Turkey, the most important objectives were felt to be (1) an increase in national income, (2) an increase in employment, especially of unskilled workers, (3) an improvement of the balance of payments. Further, in addition to the criteria implicit in these objectives and in order to judge the attractiveness of a project to private entrepreneurs, profitability was taken as another criterion. As the main scarce factor, capital was considered, at that time the need for particular types of qualified manpower was not yet given the place it would receive today. Forms were prepared to obtain information on the above factors in as uniform a way as possible. Co-operation for the collection of the data was sought from the concerned Ministries, from the State Economic Enterprises, some of the specialized banks, and from the Union of Chambers of Commerce. Moreover,

visits were paid to a number of regional centers where the local representatives of these groups were invited to submit ideas. Included in the search for projects were also some social sectors such as education, health and community development activities, for which other criteria were applied

A major methodological question faced, concerned the problem of the so-called indirect effects of projects At that time it was usual to follow some sort of Keynesian approach by making a distinction between indirect and secondary effects It was considered the task of the State Planning Organization to deal with the appraisal (including the estimation) of the indirect effects.

Although it was difficult and sometimes impossible to obtain private projects, several hundreds of projects were collected from the sources indicated Because of the existence of a public sector extending to several industries where in most Western countries only private enterprises exist (textiles, cement), a number of projects for these industries was also obtained, but it is doubtful that they gave a sufficiently representative picture of the possibilities. The problem remains of obtaining data on some investment possibilities which may be important for the economy's future. The work of the sector committees may be said to fill this gap to some extent.

The project appraisal operation undertaken by the S.P.O. resulted in tables indicating the main contributions of each of several hundreds of projects to the increase in national income; employment, the balance of payments, and profits. The quality of the figures remains a matter for debate but the preparation of the tables is an important step towards a more systematic treatment of the problem of development policy The figures were used to «fill up» the sector projections obtained in the sector phase with a number of projects, and also, occasionally to change the choices made during that phase Several problems remain, however. First, in a number of sectors it is not possible to split up the total investment into definite projects This is, of course, true in particular for branches in which small enterprises prevail, as for instance in retail trade or agriculture although in the case of agriculture, some types of investment are under the control of the Government, such as irrigation or drainage works, while others may be influenced by subventions Secondly, it is not possible to anticipate on all the good projects that may come up during a five-year period, especially in a mixed economy with an important private sector. Hence the idea of a complete «filling up» of any plan with single projects is not feasible and must be abandoned.

The practical use made of this first exercise may be seen in the inclusion in the Five-Year Plan and in the corresponding Annual Programs of the Government, of a considerable number of concrete projects, listed with indications on a number of details, among which are their location and the probable time period needed for their execution.

In a few cases, more sophisticated pieces of research have been undertaken which may be briefly mentioned because they do constitute part of the methodology of the plan Thus, for one industry with considerable transportation costs, the problem of the optimum location of one or more new plants was tackled with the aid of mathematical methods It will be possible to appreciate the full influence of this work only later. Another such piece of research was the estimation of the internal rate of yield on a number of projects, using detailed estimations of the time shape of all the important items relevant to calculate that rate Also, a number of market analyses for exports were carried out Last but not least, a financial and monetary analysis was undertaken for the annual plans, along modernized Keynesian lines Several of the experts who worked at the S.P O on these matters are contributing to this book and their names and contributions will be found in the relevant chapters For brevity's sake this reference may take the place of precise quotations.

From the preceding sketch it will be clear that the methodology used by the Turkish S P O is not static but, on the contrary, rapidly developing — hence the difficulty of describing it with any precision. In the beginning, several of the methods used were only primitive approaches, used for lack of time or of specialists. Gradually, a larger number of specialists could be attracted — and also a few severe losses were suffered by the departure of some of the best initial staff. In the final analysis however, almost all of the methods used have been refined in the meantime The Second Five-Year Plan is being prepared with considerably more sophistication. The macromodel has been improved very considerably by the inclusion of more aim variables, more scarce factors, and more sectors The method of sector planning has been developed along the lines of more sophisticated input-output techniques Better data have made it possible to apply more refined techniques for market analyses The problems of the estimation of indirect effects and balance-of-payments effects of projects are now formulated in a better way Although we cannot refer to them in more detail in this brief article, several recent reports of the S.P.O. bear witness to these developments.

V

THE MACRO - MODEL OF THE PLAN

by
Y. KÜÇÜK *

I. METHODOLOGY

1. The Planning Method

The First Five-Year Plan was prepared in accordance with the method of «planning in stages» developed by Prof. Tinbergen. In this method, the economy is analysed in three inter-related stages. Various decisions concerning development policy can be taken at each stage, but the strategic decisions are those made in the first stage, which is often called the macro-stage Decisions made in the second and third stages should clarify and support the decisions of the first stage

In the first stage magnitudes such as aggregate income, consumption, savings, investment, exports, and imports, which cover the whole economy, and the relationships among them, are studied. The aim is to draw up various development policies that seem appropriate for the economy and to prepare the way for a selection from among them. This is done by technical studies which specify the development targets on the one hand, and diagnose the factors limiting development on the other

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In the second stage, the conditions required for realizing the development targets defined in the first stage without causing an imbalance among various commodities should be investigated. Sectoral growth rates and investments are determined in this section.

In the first two stages the problem of consistency is most important. Attention is focused on the achievement of various balances In the third stage the search for efficiency comes into the picture. When a selection is made among various projects, possibilities of using the scarcest factor in the most productive way are investigated

The First Five-Year Development Plan was essentially prepared within the framework described above The sectoral analysis used the findings of capitalist economic and planning theory. Parallel to the three stages, it was desired to develop three models or techniques: a growth model with one sector, an input-output model, and a method for project evaluation Simplicity was always sought in the application of these techniques. A Harrod - Domar type macromodel, an open and static input-output model for 1959 with 15 activities (or industries), assuming some input coefficients to be zero, and a project evaluation technique based on social profitability were taken as the technical framework of the study

Looking back, it is not possible to criticize this decision for simplicity At that time, the available technical capacity, the statistics, and most important of all, the development problems demanding urgent attention led to the choice of a simple technical framework as being the optimal one In fact, considering the results obtained, we may even conclude that it was more sophisticated than necessary. For instance, only techniques applicable to the evaluation of productive investments were developed, but most of the projects submitted to the Planning Organization were related to social overhead capital and lacked the data necessary for such refined evaluation. The input-output table, which constituted a great challenge to the limited manpower of the Organization, could not be taken as a basis for sectoral production and investment decisions. The decision-making bases substituted in its place were the findings of special committees, characterized by the preponderance of personal experiences and subjective evaluations and the separate sector studies made in the Organization Since they are the subject of this paper, the studies and findings concerning the macro-stage will be explained in detail on the following pages. It can be said that this section has shaped the discussions related to the Plan and the Plan

itself. This should not be taken, however, to mean that the findings of the first stage have not been extended into the other stages. The point is that the macro-decisions and data have not been corrected to a sufficient extent in the light of the findings of other stages. On the other hand, as will be seen later, not even all of the measures projected in the macro-stage have been realized.

2. Objectives and Instruments

The main objectives which the planners were interested in were the following :

The increase of national income : This, from the beginning, has been the least controversial objective. The rate of increase of income was accepted as the most important determinant of development.

Creation of productive employment areas for the growing population was another important objective, and was in fact cited among the basic targets of the First Plan However, both the preparatory discussions and the formulation of the Plan revealed that it was not really conceived as an objective independent of the growth of national income It was assumed, **a priori,** that the law of economic theory which states that, **ceteris paribus,** the productivity of the factors of production will decrease as the rate of employment of the labour force is pushed upward, is valid for the Turkish economy Moreover, as a consequence of preliminary studies it was understood that creation of employment in the Nurksenian sense has its own socio-politic and economic drawbacks On the other hand, a continuous and rapid development requires, at least in non-socialist countries, a conscious and conscientious set of policies to prevent any factor proportion changes that might be favourable to the labour force. This is why, despite the reflections and frequent mentions made in the Plan, employment was not considered as an objective in the real sense of the word, and was viewed only as a linear function of national income

A third objective seems to be the reduction of Turkey's dependence on foreign countries or, as is expressed in the Plan, **the elimination of the balance of payments deficit** in the course of time. The least clear parts of the Plan are the sections where this topic is analysed. However, it could be concluded from their study that the realization of development by using external resources as little as possible and by making the economy viable in the shortest possible

period are aimed at. Thus, the balance of payments deficit can be considered as an instrument to be manipulated carefully rather than as an objective **per se.**

Another objective frequently mentioned in the Plan is the **realization of social justice,** and, as its most important element, a fair distribution of income But in the Plan and in the preparatory studies for the Plan, neither the effects of this objective on other objectives nor the measures necessary for its realization are examined. Essentially, social justice becomes an important side condition concerning the instruments that may be used for the realization of the income target of the Plan.

These are the main objectives of the Plan. The definitions of the targets and the instruments developed for their realization prevent, at the outset, any probable conflict between them. If we ignore details and certain flowery passages written for the benefit of public opinion, this leads us to interpret the Plan as a document with a single objective

The conclusion reached in the above paragraph is further supported by an examination of the instruments of the Plan. No doubt, the basic limiting factor in the increase of national income is the volume of savings. The first Plan has concentrated all its attention on measures to expand the volume of savings.

As is well known, the sources of savings can be classified under three headings : Private, public and foreign savings. The measures that can be taken with regard to private savings seem to be in conflict with the desire for social justice Unless we are satisfied with a less equitable income distribution, it is not possible to have considerable shifts in private savings On the other hand, leaving aside the implications of the concept of a trade gap, dependence on foreign savings — even if we assume that the desired loans can be obtained — contradicts the stated objective of not depending on the rest of the world. Under these circumstances the efforts to increase savings can only be directed to public savings. And this in turn, requires the expansion of public revenue in the form of taxes and the shrinkage of public expenditures for collective needs These specific features of the Plan have been brought out in the discussions on possible action to resolve this contradiction.

3. The Determination of Targets

When the Plan was being prepared the objectives and instruments were defined as explained above. What is important from the

planning point of view, however, is to find the values which these objectives and instruments will assume, in other words, the determination of **targets.** For this purpose, a model can be used. This is what was done during the preparation of the Plan. We shall examine the details of the model later; for the time being, it must be noted that it is misleading to suppose that the determination of the targets and instruments can be made merely by fixing certain values for the targets in the model. Current planning theory states that planning with a fixed target is, in fact, more practical and widespread than planning to maximize an objective function Actually, it has often been asserted that the first Plan is a plan with a fixed target. The accuracy of this assertion is rather doubtful. It is true that determination of the coefficients of the objective function creates serious difficulties, and that a maximization in the formal sense was not attempted in the first Plan. But it is also true, for example, that few firms in the real world seek solutions for programming problems. In spite of this it is assumed that the firm tries to maximize its profits, and it is held that this assumption reflects reality to a large extent Besides, it is rather irrational behaviour to decide on an abstract target without weighing it up against the instruments it implies. Therefore, it is possible to assume that the determination of the targets and instruments of the first Plan, have been implicitly based upon the maximization of an objective function defined in terms of targets and instruments, although this may not be clear at a formal level.

II. THE MODEL USED IN THE PLAN

1. The Characteristics of the Model

Although there is no doubt that it is extremely useful to base planning decisions on a model, the question of the **kind of model** that should be taken as the starting point is, by definition, an open one.

Concerning the nature of the basic model used in the First Five-Year Plan, it is possible to find some clues in the «Targets and Strategy of the Plan», where we observe the following indication :

«The activities of the public sector will be planned so as to realize the rate of development and secure a balanced growth in the direction specified by the strategy».

The same spirit is also predominant in the other sections of the Plan. Instruments which will help to realize the targets, and which

can be controlled, are defined only for the public sector. It is possible, of course, by giving various values to these instruments, to estimate the alternative rates of development and to make a selection among them. As it is known, a model which provides such a possibility is called a **'government decision model'**. As will be seen from the explanations given below, the model of the first Plan is a model of this type.

The model is a single-sector growth model. This is due to the fact that the problems confronted when the first Plan was prepared did not require a more detailed formulation. Since the basic limiting factor was the level of savings, it was not found necessary to determine the sectoral relationships in taking decisions on development. On the other hand, it should be remembered that the shortcomings of the statistical data available at that time created serious difficulties which are felt even now, although not to the same extent.

The model was taken from a United Nations handbook on programming techniques [1]

The variables and equations of the model — with a few minor corrections — are presented below.

The Variables

Y' : Gross National Product, at market prices
Y : Gross National Product, at factor prices
Y^p : Disposable income (private)
C^p : Private consumption
S^p : Private savings
T^d : Direct taxes
T^i : Indirect taxes
R^g : Government revenue excluding taxes
C^g : Government consumption
S^g : Government savings
I^p : Private investment
I^g : Public investment
Y^g : Disposable income (government)
E : Exports
M : Imports
B : Foreign grants and loans

1 **Programming Techniques for Economic Development with Special Reference to Asia and the Far East.** United Nations, Economic Commission for Asia and the Far East, Bangkok, 1960.

Definitional (Identity) and Balance Equations

$$Y' = C^g + C^p + I^p + I^g + E - M$$
$$Y' = Y + T^i$$
$$Y = Y^p + R^g + T^d$$
$$Y^g = S^g + C^g$$
$$Y^g = T^i + T^d + R^g$$
$$Y^p = C^p + S^p$$
$$B = M - E$$
$$S^p = S^g + B = I^g + I^g$$

Behaviorial and Postulated Equations

$$s = (Y^p - C^p) / Y^p$$
$$t^d = T^d/Y$$
$$t^i = T^i/Y$$
$$r^g = R^g/Y$$
$$m = M/Y$$
$$b = B/Y$$
$$l = I^g/(C^g + I^g)$$
$$s' = (Y^g - C^g)/Y^g$$
$$I = I^p(t) + I^g(t)$$
$$k = Y(t+1) - Y(t)$$

It is assumed that the nature of r^g grafted on the model subsequently is not different from t^d. The content of r^g authorizes such an assumption.

The model can be reduced to the following basic growth formula :

$$G = ks\,(I - t^d) + ks'\,(t^i + t^d) + kb$$

The first, second and third terms on the right hand side indicate respectively the shares of private savings, public savings, and foreign savings in the rate of growth. According to planning and development theory, the control of the planner over the coefficients k and s is very limited. All the remaining coefficients can, to some extent, be controlled

2. The Use of the Model

The following paragraphs will raise doubts as to whether the model used is in fact the one we outlined above. Therefore, it seems necessary to determine to what extent the model was used.

In actual fact, those who actually participated in (or later came in contact with) the preparatory studies of the Plan have no difficulty in recognizing the above model as the basis for the macro studies. Further, a distinction is always made between domestic and foreign savings As we have noted earlier the activities of the public sector were given more weight in the preparation of the Plan. All these could be described within the framework of a model, in essence of the Harrod type, but one which allows a distinction between the contributions of the public sector and the «foreign» sector.

One cannot speak of a complete application of the model; however, the main tables of the Plan consist of the model's balance equations

One of the main coefficients of the Plan is the capital-output ratio Only a global capital-output ratio could be estimated while the Plan was being drawn up According to the statistics pertaining to the 1950 - 60 period, the marginal capital-output ratio was estimated to be around 3 5 However, a much lower ratio was used in the preparation of the Plan.

Two reasons can be cited for this. First, during the previous decade a considerable idle capacity had accrued in the social overhead capital and in sectors like machinery and textiles. It was assumed that measures could be taken to use this capacity productively.

The other important reason — though not explicitely stated — was the belief that during the plan period the capital mix could be given a considerably different composition than it had in the previous period, it was expected, in particular, that a significant reduction in housing construction and in infrastructure investments with high capital-output ratios could be achieved Implementation of the Plan has revealed however, that in underdeveloped countries such as Turkey, where powerful planning instruments have not been developed, such expectations are rather optimistic

Another important coefficient is related to private savings. Even today, the most reliable savings data available to the Turkish planners, are the investment series Domestic savings are found by substracting foreign funds from investments. Since public savings can be estimated separately, private savings are determined as residuals. Such a procedure for estimating savings can be criticized on many grounds, but because the statistics are not suitable for following any other procedure, the question of the preferences of the planner is ruled out

For a complete application of the model, a distinction should be made between direct and indirect taxes. Such a distinction is not made in the Plan for the plan period but the necessary information for the period 1950 - 1962 is provided According to this information, the trend of the ratio of direct taxes to total taxes is expressed as

$$r = 28.2 + 0.99\,t$$

In other words, the share of direct taxes in total taxes, which was initially 28.2 per cent, has increased by one per cent every year. In 1961 and 1962 this share reached 40 per cent. Accordingly, it was assumed that direct taxes would constitute 45 per cent of the total in 1967. This assumption is in conformity with the other statements of the Plan.

The principal magnitudes and parameters of the Plan are shown in the following tables.

TABLE 2

PRINCIPAL MAGNITUDES OF THE PLAN, 1962 - 1967

In billion TL (1961 prices)

	1962	1963	1964	1965	1966	1967
Y^1	52 7	56.4	60.3	64 5	69 0	73.9
Y	48 1	51.1	54 4	58 3	62 4	66 9
Y^p	42 0	43 4	46 3	49 3	52 2	55 4
C^p	38.9	40 5	43 0	45 5	47 6	50.2
C^g	7.6	8 6	9 0	9 5	10 5	11 5
S^p	3 1	2.9	3 3	3 8	4 6	5 2
S^g	3.1	4 4	5 0	5 7	6.3	7 0
I^p	3 5	3 8	4 2	4.7	5 3	5 9
I^g	5 1	5 8	6 6	7 1	7.8	8 4
T^i	4 6	5 3	5 9	6 2	6 6	7 0
T^d	3 1	3 7	4 2	4 7	5.2	5.8
R^g	3 0	4 0	3 9	4 3	5 0	5 7
$R^g + T^d$	6 1	7.7	8 1	9 0	10 2	11 5
E	3 3	3.6	3 9	4 2	4 6	5 0
M	5 7	5.9	6.4	6 5	6 8	7 1
B	2 4	2.3	2.5	2 3	2 2	2 1

There is a small difference between the parameters given in **Table 2** and the output/capital and savings parameters used in the final version of the Plan; in the final version of the Plan these parameters were related to GNP expressed in market prices, here they are related to GNP at factor cost. Transformation between these can be made by using the factor 0.903.

The last column of **Table 2** gives the predicted rate of growth by years. **Table 3** gives the rate of growth by sectors.

TABLE 2

PARAMETERS OF THE PLAN, 1962 - 1967

	1962	1963	1964	1965	1966	1967	1963-67
k	0,3740	0,3740	0,3540	0,3470	0,3340	0,3280	0,3474
s	0,0738	0,0668	0,0713	0,0771	0,0881	0,0939	0,0794
t^d	0,1268	0,1507	0,1489	0,1544	0,1635	0,1719	0,1579
t^i	0,0956	0,1037	0,1085	0,1064	0,1058	0,1016	0,1058
m	0,1185	0,1155	0,1177	0,1115	0,1090	0,1061	0,1120
b	0,0498	0,0450	0,0459	0,0394	0,0352	0,0313	0,0394
s^1	0,2897	0,3385	0,3571	0,3750	0,3750	0,3784	0,3648
i	0,4016	0,4028	0,4231	0,4277	0,4262	0,4221	0,4204
g	0,0668	0,0702	0,0701	0,0703	0,0701	0,0701	0,0702

TABLE 3

DISTRIBUTION OF THE RATE OF GROWTH ACCORDING TO CONTRIBUTING SECTORS

Years	Private Contribution	Public Contribution	Foreign Contribution	Total
1962	0,0241	0,0241	0,0186	0,0668
1963	0,0212	0,0322	0,0168	0,0702
1964	0,0214	0,0325	0,0162	0,0701
1965	0,0227	0,0339	0,0137	0,0703
1966	0,0246	0,0337	0,0118	0,0701
1967	0,0255	0,0343	0,0103	0,0701
1963 - 1967	**0,0232**	**0,0334**	**0,0137**	**0,0703**

Table 3 supports the view that the task of increasing the rate of development is assigned to the public sector by the Plan.

III. THE SUCCESS OF THE PLAN

1. The Results of Implementation

There are two criteria by which we can judge the success of the Plan. The first is whether the Plan, as an instrument of deliberate development policies, has added anything to the rate of development realized in the period when there was no Plan. For such a comparison, it is not necessary that contextual conditions of the two periods be the same, as one function of the Plan is to increase productive forces and another to provide a rational use of these forces.

The second criterion of success is the consistency of the Plan as a technical study, the reliable estimation of the behavorial and technological parameters, and a realistic selection of policy parameters. These criteria enable us to grade the planners and those who carry out the implementation, separately, in the light of their respective performances If the deviation in a target variable can be expressed in terms of instrumental variables, it is not possible to hold the planners responsible. But if the deviation is not due to deviations in instrumental variables then it can be considered that those who implement the Plan have done their duties, while the planners' performance leaves much to be desired

In practice, it may not always be possible to make this distinction down to the last possible subsector, and we will not attempt to do so here. What we want to do is to bring it out at a significant level.

In the table below, the magnitudes obtained in implementation are given. These aggregates, however, have been adjusted . remove the effects of weather conditions The logic of this adjustment is that it is necessary to abstract from the fluctuations in agricultural output due to changes in weather conditions, in order to be able to appreciate the contribution of the actual development effort more precisely In underdeveloped countries, due to the preponderance of agriculture, a small fluctuation in agricultural output has quite an important effect on the overall rate of growth

The effects of weather conditions can best be removed by using the method of moving-averages. However, to be of any real significance, this method requires 7 - 11 year averages, thus leaving out the last 3 - 5 years. We therefore choose to estimate a trend. The trend equation calculated for 1957 - 65 is :

$$Y_A = 16257,5 + 371,5\,t$$

The adjustment does not end here In underdeveloped countries fluctuations in agriculture also cause a fluctuation in the outputs of the trade and transportation sectors Evidently it is necessary to adjust for these fluctuations as well.[2] For the purposes of this adjustment, we assume that there is a Cobb-Douglas type relationship between the outputs of the trade and transportation sectors and

2 For a detailed discussion of this and related matters, cf Y Küçük, C. Canalp, **Capital-Output Ratio in Turkey**, Preparatory Studies for the Second Five-Year Plan, No 23, 1966 (mimeographed)

production in the sectors of agriculture, construction, and industry. The parameters and the form of the postulated relationship are as follows :

$$Y_{T+U} = 10^{-1'303}\, Y_A^{\ 1'190}\, Y_{S+I}^{\ 1'836}$$

Y_{T+U}, Y_A, and Y_{S+I} stand for Income of Trade and Transportation, Income from Agriculture, and Income from Manufacturing and Construction, respectively.

As a result of the adjustments made, the rate of growth of GNP fell in 1963 and increased in 1965, with no important changes observed in the average rate of growth.

TABLE 4

ADJUSTED IMPLEMENTATION MAGNITUDES, 1962 - 1965

In million TL. (1961 prices)

	1962	1963	1964	1965
Y^i	51788,0	54769,1	57866,2	61396 1
Y	47134,3	49622,6	52328,1	55482,9
Y_p	42017,9	43585,9	45061,4	48621,2
C_p	38993,9	40502,3	41394,2	43360,4
C_g	7239,6	8129,0	8511,0	9451,5
S_p	3024,0	3083,6	3967,2	5260,8
S_g	2530,5	3054,2	3693,8	3323,4
I_p	4310,3	4686,0	4381,4	4582,5
I_g	4023,0	4817,2	5113,0	5434,3
T^i	4653,7	5146,5	5538,1	5913,2
T^d	2275,3	2497,1	2692,9	2936,8
R_g	2841,1	3539,6	3973,2	3924,9
$R_g + T^d$	5116,4	6036,7	6666,7	6861,7
E	3879,8	3276,7	3661,5	4573,4
M	6658,6	6642,1	5494,9	5806,0
B	2778,8	3365,4	1833,4	1232,6

Table 5 gives the parameters actually encountered in implementation. The k's in parentheses show the output-capital ratio of the Plan and the g's in parentheses show the rate of increase in GNP if these k's had been realized Evidently, the assumption that GNP would increase at the desired rate if only the capital-output ratio could be reduced to the planned level by taking certain measures (in themselves very difficult politically), is far from being realistic. In fact, as is clear, even if the policy parameters had been realized in accordance with the Plan, the economy would not achieve the envisaged rate of growth.

TABLE 5

REALIZED PARAMETERS, 1963 - 1965

	1963	1964	1965	1963 - 65
k	0,2909	0,3115	0,3448	0,3148
	(0,3740)	(0,3540)	(0,3470)	(0,3474)
s	0,0707	0,0869	0,1082	0,0886
t^d	0,1217	0,1274	0,1237	0,1243
t^i	0,1037	0,1058	0,1066	0,1054
m	0,1339	0,1050	0,1046	0,1145
b	0,0678	0,0350	0,0222	0,0417
s'	0,2731	0,3027	0,2602	0,2787
i	0,3721	0,3753	0,3651	0,3708
g	0,0557	0,0565	0,0610	0,0577
	(0,0729)	(0,0693)	(0,0614)	(0,0637)

Table 6 shows the distribution of the realized rate of growth according to contributing sectors. If we compare this table with the corresponding table prepared for the Plan, we observe that targets have not been attained in the public and «foreign» sectors.

TABLE 6

DISTRIBUTION OF «REALIZED» RATE OF GROWTH ACCORDING TO CONTRIBUTING SECTORS

	Private Contribution	Public Contribution	Foreign Contribution	Total
1963	0,0181	0,0179	0,0197	0,0557
1964	0,0236	0,0220	0,0109	0,0565
1965	0,0236	0,0207	0,0077	0,0610
1963 - 65	0,0240	0,0202	0,0131	0,0577

2. The Contribution of the Programs

The preparation of the Programs is based on a relatively simple mechanism. The main principle is to inflate the source and expenditure balances of the Five-Year Plan, given in 1961 prices, with suitable indices. Generally the programs of one year are prepared by using the prices of two years ago, instead of the prices of the current year. For instance, the Program for 1963 was prepared with the 1961 prices of the Five-Year Plan Delays in planning created difficulties, especially with regard to the consistency of the investment aggregates of the third and subsequent year Programs in relation to the Plan. The problem here is, which set of magnitudes should

be given priority in the preparation of Annual Programs: the absolute aggregates or the percentages of the Plan? Because of the delays in implementation the inclusion in the Programs of the absolute Plan aggregates — corrected with indices — causes unrealistic differences between, for example, the programmed investments and investments realized during the preceding year This reduces the reliability of the Program as a document On the other hand, when the investment - GNP ratio specified by the Plan was taken as a basis, similar difficulties were encountered, especially during the preparation of the later Programs

Investments do not constitute the only deficient aspect of the plan-program relationship The fact that appropriate indices were not used as concerns the basic aggregates of the Plan detracts from the reliability of the plan-program relationships Foreign trade aggregates can be cited as an extreme example Except in recent Programs, considerations about the probable movements in foreign trade and prices were completely neglected.

The common link in all plan-program relationships is constituted by investments, in the sense explained above No matter what new findings there may be, the capital-output ratio is left unaltered

In the macro-stage the Program is based on two basic balances. These are the balance between sources and expenditures in general, and the balance between public revenues and expenditures While this last balance is being constructed, foreign finances are considered as a public revenue. This practice should be considered a methodological error.

The Programs imply a deficit in the government sector's revenue and expenditures balance, which means a new tax burden on the community

The following tables give the program magnitudes reduced to 1961 prices with the appropriate indices. A comparison of these tables with the corresponding tables of the Plan reveals the fact that the ties between the Plan and the Programs are extremely weak. On the other hand, the magnitudes related to implementation can be considered as a criterion for evaluating the degree of realism of the Annual Programs.

TABLE 7

PROGRAM MAGNITUDES

In million TL (1961 prices)

	1963	1964	1965
Y^{I}	55379,2	59910,3	61795,8
Y	50117,2	54108,2	55572,7
Y_p	43936,3	46934,9	48036,1
C_p	39198,7	41980,9	42288,4
C_g	9456,4	0042,6	9881,9
S_p	4737,6	4954,0	5747,7
S_g	1986,5	3032,8	3877,8
I_p	4023,0	4310,3	4686,0
I_g	5383,0	6556,5	7216,5
T^{I}	5262,0	5802,1	6223,1
T^{d}	2540,6	2746,0	3072,0
R_g	3640,3	4427,3	4463,8
$T^{d} + R_g$	6180,9	7173,3	7536,6
E	3249,0	3573,0	4687,2
M	5931,0	6453,0	6964,2
B	2682,0	2880,0	2277,0

TABLE 8

PROGRAM PARAMETERS

	1963	1964	1965	1963 - 65
k	0,3740	0,3540	0,3470	0,3583
s	0,1078	0,1056	0,1197	0,1110
t^{d}	0,1233	0,1326	0,1356	0,1305
t^{I}	0,1050	0,1072	0,1120	0,1081
m	0,1183	0,1193	0,1253	0,1210
b	0,0535	0,0532	0,0410	0,0492
s^{I}	0,1736	0,2337	0,2818	0,2297
i	0,3628	0,3974	0,4221	0,3941
g	0,0701	0,0710	0,0743	0,0718

TABLE 9

DISTRIBUTION OF PROGRAM GROWTH RATES ACCORDING TO CONTRIBUTING SECTORS

Years	Private Contribution	Public Contribution	Foreign Contribution	Total	Realized	Total according to realized COR
1963	0,0353	0,0148	0,0200	0,0701	0,0557	0,0546
1964	0,0324	0,0198	0,0188	0,0710	0,0565	0,0625
1965	0,0359	0,0242	0,0142	0,0743	0 0610	0,0739
1963 - 65	0,0346	0,0196	0,0176	0,0718	0,0577	0,0632

The tables of this section are clear enough and do not require any interpretation However, the following two points may be accentuated :

a) No attempt is made in the Programs to modify the over-optimistic capital-output ratio of the Plan.

b) The savings - investments balance has not been formed in a realistic way It had been assumed that a considerable portion of the required savings would be provided by private savers. Implementation has revealed that the coefficient of private savings accepted by the Plan is too optimistic

IV. CONCLUSION

At the outset it should be remembered that the scope of this paper is considerably limited The main point of the paper is briefly to evaluate the contributions of various sectors to total savings. However, it can not be claimed that the identity between the investments and savings on the aggregate level also holds true for the individual sectors For example, out of all foreign savings only a small amount flows into the country in the form of foreign investments, the rest (a large percentage) taking the form of foreign credits of various terms and being used by the domestic private and public sectors Besides, it is known that a considerable portion of savings realized by the public sector is channelled to private entrepreneurs through the banking system

Further, no reliable data are available on the flow of savings, in spite of the fact that this is important from the point of view of development. While the growth-limiting factor in the developed countries is the investment opportunities, in underdeveloped countries this limitation is caused by the level of aggregate savings. Therefore, it is appropriate to measure the contribution of each sector by the volume of savings it creates

A second important point for criticism is the assumption that the investments undertaken will immediately create new capacity. This is a criticism directed mainly at the Plan itself, but there is no doubt that it would be valid for any analysis concerning the Plan, if in such an analysis the same assumption is made. However, it may be considered that neglecting the gestation period will reduce the explanatory value of an analysis only if there is a considerable increase in investments during the planned period as compared with investments of pre-plan years. Although such an increase has been

envisaged in the formulation of the Plan, the observed implementation magnitudes show a rather smooth trend. Thus, it may be concluded that in practice, the exclusion of the gestation period has not involved any significant drawbacks

Besides these shortcomings, some important implications of the conclusions should be pointed out As has been noted in the relevant tables of this paper, the Plan and the Annual Programs show important discrepancies with regard to the specific roles of sectors. Contrary to the Plan, the Programs attach more weight to the private sector in the realization of development.

This discrepancy should not be interpreted merely as a change in the welfare function It is true that the basic structure and the strategy of the Plan were outlined under a military administration and the Plan attained final form in a period when military influences were still felt, while the Programs were prepared in a «more democratic» political atmosphere This may induce us to consider the above mentioned discrepancy as a change in the welfare function, and it is indeed difficult at first glance to claim that such a reasoning is entirely inaccurate This, however, could only mislead us by leaving out the consideration of some other — and more important — factors

In fact, what has changed is not merely the emphasis on the various means of implementation of the development rate target. What has been changed in practice is **the rate of development itself.** More specifically, in the Programs the 7 per cent rate of development has been deliberately abandoned, although no explicit account of this is given The implementation activities in general support this argument; in the Programs, the most reliable instrument of development, i.e. the public savings, are neglected The results of implementation are of a nature that both supports this view and reveals that planning for considerable increases in private savings is not realistic.

This should not, of course, lead to a mechanistic interpretation to the effect that the private sector has fulfilled its function and that the public sector has lagged behind Considering the Turkish experiment, the conclusion to be derived is that in underdeveloped countries the social origin of the political authority and the requirements of the process of development do not conform to one another.

What has been said so far in this section is related to the numerator of the Harrod formula; some conclusions related to the denominator can also be derived.

«Under-utilization» or idle capacity is one of the most frequently mentioned concepts in the first Plan. It was hoped that idle capacity could be fully employed so as to increase the productivity of capital This is, in fact, another important misevaluation. In the Plan it was assumed that, by planning the required demand in the fields where idle capacity is estimated to exist, all the related problems could be solved. Although this view is by and large well-taken in the case of the developed countries, it is not very accurate for the underdeveloped ones An important lesson to be derived from the implementation of the Plan is that underutilization in Turkey is not due to a lack of demand as such, but rather to organizational deficiencies, and that consequently its elimination requires organizational measures On the other hand, the validity of the view that the productivity of capital can be increased by changing the capital mix depends entirely on the development of the relevant instruments. In the Turkish case, however, these instruments have not been developed

Nevertheless, the experiment of the first Plan has shed light on an important fact In the last 15 - 20 years the economy has realized, on the average, a 5 per cent rate of development — whether the economy is «planned» in the way explained in this paper or not, this result is obtained What is difficult, however, is to raise this rate, to push it up to 7 per cent or more This requires radical changes, and unfortunately the mere listing of these radical changes does nothing to solve the real problems.

VI

SECTORAL PROGRAMMING IN THE PLAN

by
Y. KÜÇÜK *

INTRODUCTION: THE SCOPE OF THE PAPER

This paper does not have a normative purpose. This means, first of all, that the problem of how a sectoral program should be drawn up, i e. how the sectoral distribution of a scarce factor or scarce factors should be effected, will not be dealt with There is, in fact, an extensive literature on this subject, directed to readers at all levels, and extending from technical papers in professional periodicals to handbooks of the «Sectoral Programming in One Lesson» type, by international organizations Secondly, it means that the paper will not deal with the question of what the general relationships between sectors should have been in the First Five-Year Plan period It is indeed difficult to consider the study of such a problem as a meaningful contribution from the point of view of this volume.

If the two questions mentioned above were taken up, this would inevitably lead to an analysis of why, and by how much, the treatment of the sectors in the first Plan falls short of an optimum – both from the point of view of the model used and as concerns the outcome of implementation In order to find suitable answers to these questions, however, it is necessary to get involved in problems of an extraordinarily large scope, such as the country's stock of econom-

* Cf the article on «The Macro-Model of the Plan».

ists and the past development of Turkish institutions teaching economics, as well as the class basis of political power and the existing legislative situation, and such a study requires pre-conditions that are altogether different from those of the present volume.

The purpose of this paper is, then, not to set a normative framework, but simply to describe the methodology followed and the model used in the preparation of the sectoral program of the first Plan. The fact that the paper is written in quite a critical tone does not in any way contradict this statement; for the author believes that a good description can only be achieved with the aid of a substantial dose of criticism It should not be necessary to emphasize further that the criticisms are not made according to any «optimum criteria», but concern solely the internal logic and factual consistency of the methodology and the model used.

On the other hand, the information given about the evolution of the sectors or the contents of the program is no more than that required to comprehend the model. However, certain difficulties related to planning practice, and believed to be quite interesting, have been briefly dealt with

I. THE METHODOLOGY AND THE MODEL

Those parts of the First Five-Year Plan which deal with the sectors are the product of a three-stage study. As will be seen from the detailed explanations below, however, the three stages of this study have not been planned as three distinct components of a whole. Rather, for each sectoral program, three separate studies were made, using three more or less different methods Although it is definitely known that the outcome contains the results of all three studies it is impossible to establish with clarity the contribution of each study to the final product.

The three studies are: (1) the Input-output Table for 1959, (2) the preparation of partial sectoral programs; and (3) the activities of the **ad hoc** committees

These studies are analysed separately below. It should immediately be stated that in all three studies, the definition of «sectors» is the same.

1. The Input-Output Table

The preparation of the sectoral programs constitutes the second stage in the overall methodology of the first Plan. In the preparatory period prior to the first Plan, the problem of setting up balanced

sectoral programs was among the most important policy decisions awaiting a solution, since during the pre-plan years, the bottlenecks in some sectors (cement, iron, steel) and the over-production in certain others (textiles, transportation) had constituted serious problems

Since inter-sectoral consistency is sought, it is not surprising that the sectoral programs were based on a Leontief model Further, as the macro-model can give total expenditures according to categories of consumption, investment, exports and imports, etc , there is nothing more natural than that the Leontief model chosen should have been a static and open one

There were equally convincing reasons for the choice of 1959 as the base year of the model The preparations had started towards the end of 1961; the benefits of choosing a base year as recent as possible are clear. The year 1958 had suffered from quite a significant economic event (a 65 per cent devaluation) and the year 1960 from a political event (the military **coup d'Etat**), both with sizeable repercussions on all economic activity. Thus, it became necessary to choose 1959, a relatively normal year, as the base year.

The work on the Table started with a short memorandum from Professor Tinbergen, proposing some simplifying assumptions for the input-output model to be constructed The basic recommendation was that some cells in the Input-output Transactions Table be left empty As the memorandum could not be found at the time this paper was written, a comparison of the proposed assumptions with the final Table could not be undertaken. There is no doubt, however, that the final Table has been inspired very largely by this short but important memorandum.

The Table has been constructed and filled for 20 sectors. The sectoral classification has been based on the ISIC. Inter-industry flows are gross of competing imports, and net of complementary imports. Similarly, it is understood that flows are evaluated on the basis of buyers' prices from the point of view of trade margins, and on the basis of sellers' prices from the point of view of transportation margins. This second aspect, however, is debatable, since in the only document containing a compact exposé of the technical basis of the Plan, we encounter the assumption that «a sector performs by itself the commercial and transportation services for the goods it produces.»[1] Nevertheless, the 15th row in the Input-output Tranc-

1 Notes for the Colloquium on the **Technical Aspects of Turkey's Long-term Plan**, S P.O , (Mimeo), 1962

actions Table of the same document, occupied by the transportation sector, is one of the most crowded rows.

The final demand section consists of 7 columns: competing imports, exports, private consumption, public consumption, private investment, public investment, and changes in inventories.

The 1959 Table is not based on an industrial census or any other source of systematic information. The basic source is the information gathered by the S.P O as a basis for sectoral programs Most of this information has been obtained through the **ad hoc** committees, which will be mentioned further below. Several points need to be emphasized here The cells have been filled as Professor Tinbergen had suggested—by deciding, **a priori**, which cells were to be filled and which were to be left empty In other words, first a decision was made as to what the inputs of a sector could be, and then values were given accordingly Apart from this, the construction of the Table was not envisaged as a combination of either rows or columns In some sectors, the information gathered was about the allocation of the product while in other sectors, it concerned the structure of the inputs It is possible that this has rendered the task of balancing more difficult than it need have been. A third point is that most of the available data indicated quantities without any money values. It has generally been necessary to evaluate these according to the retail prices of a given city This may be the justification for the claim that the Table has been prepared on the basis of buyers' prices However, although transportation was later distributed among the sectors, it is understood that the necessary initial adjustments had not been made in the information collected.

The lack of independent consumption data has been one of the main shortcomings of the Table. In the section of final demand the filling of columns other than private consumption has been relatively easy. Private consumption has been calculated as a residual.

It is understood that after its completion, the Table, and certain sections in particular, did not satisfy even those who had prepared it Thus, an important surgery was performed on the Table to prepare it for usage: it was reduced by one fourth, to cover only 15 sectors. As can be seen from the Table, two of the five sectors — public services and imports — excluded from the inter-industry section, have been included in the calculation of the final demand and primary inputs sections. But the other three sectors — ownership of

dwellings; hotels, restaurants and places of recreation; and, commercial, professional, and other services — have been left out altogether. One must accept the fact that this is in principle inconsistent with the input-output model, which is an empirical general equilibrium model.

So much for the preparation of the input-output model which occupies an important place among the sectoral programming studies. On order to say something about its uses, it is now necessary to have a look at other preparatory activities.

2. Partial Sector Programs

The analysis of the relevant sectors by the experts of the Organization constitutes the second part of the preparation of the sectoral programs

The tasks given to the sectoral programmer were making demand projections for the period 1963 - 1967, and for 1975, estimating the existing capacity as well as the capacity that would meet the demand in the defined sector, and calculating such benefits of the program as the value added, foreign exchange savings, etc.

The staff was left thoroughly free to choose the methods to be followed in performing these tasks It is obvious that under these circumstances the techniques used would be related to the composition of the staff — a staff consisting of young University graduates educated in Economics and Law, and Engineers with varying degrees of experience

The main instrument used in making the demand forecasts has been the calculation of trend equations After a while, it was discovered that the concept of elasticity was quite suitable for dealing with the problem at hand, and extensive use was made of this technique. In the calculation of elasticities, either per capita national income or total GNP was taken as the independent variable, according to the nature of the dependent variable.

The determination of existing capacity, of the ratio of capacity utilization, and of the reasons for under-utilization, constituted the most productive aspect of the study

Apart from certain exceptional instances, it has not been possible to collect adequate data for determining the investment requirements in the sectors. For example, even now, at the time this paper is being written, it is not possible to use the sectoral capital-output ratios in planning activities, at the level of precision implied by a breakdown of 15 - 20 sectors

3. Ad Hoc Committees

The concept of ad hoc committees has been imported from India. While the sectoral programs were being prepared on the basis of the two-fold study mentioned above, a trip to India by the administrators of the Organization led to the establishment of more than 20 committees charged with the task of planning. The studies that these committees were responsible for conducting were not essentially different from those of the sector programmers, expect that special emphasis was placed on the estimation of the existing conditions within a sector and on the clarification of the additional benefits to be derived from a thorough intra and inter-sectoral coordination.

It is said that the Indian planning activity has derived great benefits from this procedure, and that the activities of these committees now constitute an important element of public administration. Looking at the experience of the first Plan period, one must accept the fact that the practice in Turkey has yielded negligible results.

The idea, in its simplest form, was that experts from various organizations in the different sectors would come together, and, independently of the organizations to which they were affiliated, prepare the sectoral programs The committees set-up for the first Plan were composed solely of experts from the public sector organizations

The most important problem in the establishment of the committees was related to the determination of the hierarchical level from which the experts were to be called. Was the appointee to be a high-level administrator or a researcher of the organization? The administrator might be lacking in research experience and might not have enough time to devote to plan studies; on the other hand, it was equally possible for the researcher to be ignorant about the policy problems of the sector and, what is more important, to be inexperienced in dealing with the specific problems of the more refined coordination required of these committees. The question has not found any systematic solution As a consequence, the committees have generally been heterogeneous.

The most important contribution of the committees has been in the collection of the data. Apart from this, some other benefits with no direct relation to the sector programs can be mentioned, such as the introduction of basic planning terminology and some simple techniques into the Administration, the contribution to a

conviction in public organizations of having participated in the preparation of the Plan, and the possibility of a larger choice of experts whose services could be used during the final stage of formulation We should not forget, however, that in return for these and other similar benefits, a p ce — certainly measurable in terms of planner time, and with an extremely high alternative cost — has been paid.

II THE GENERAL STRUCTURE OF THE PROGRAM

We shall now try to explain the general structure of the program. By «general structure» is meant the growth rate of the sectors and the distribution of investments.

In order to determine the 1967 production sector by using the 1959 Input-output Table, it is necessary to obtain the final demand section. As stated before, this section has been thought of as the aggregate of seven sectors Apparently, no serious difficulties have been encountered in the treatment of these sectors, except in the cases of private consumption and changes in inventories By assuming that there would not be any changes in inventories during the Plan period, the difficulty caused by inventory changes was also easily disposed of. Income elasticities were used in the calculation of private consumption. These elasticities are given in the Table below. The calculation of the elasticities has been based on time

TABLE 1

ELASTICITY COEFFICIENTS

No.	Sector	E
1	Cereals, pulses	0.66
2	Fruits and vegetables	0 75
3	Industrial crops	0 69
4	Animal husbandry, fishing	0.89
5	Mining	0.94
6	Food, beverages, tobacco	1 00
7	Textiles, clothing	1 10
8	Paper, leather, wood, etc.	1.50
9	Chemicals	1 50
10	Coal, petroleum products	1.85
11	Non-metal construction	—
12	Basic metals	—
13	Machinery	1.15
14	Electricity, gas, water	1 21
15	Transportation	1.30

Source : Notes for the Colloquium on the **Technical Aspects of Turkey's Long-term Plan,** (Mimeo), S P O , Ankara, 1962, p 24.

series, because in the preparatory stage of the first Plan there were no family budget surveys available. In fact, with the exception of one or two experimental attempts, the situation is much the same today

The calculations were made on a sectoral or commodity basis, and the elasticity relationship was established between per capita consumption and per capita disposable income. It is necessary to point out here that time series data on consumption is as scarce as family budget surveys. This leads us to consider the question of how the proportion of total production going to inter-industry usage was isolated. In this connection, there were no alternatives other than either using the proportions in the 1959 Table or importing these elasticity coefficients from countries with similar structures. The solution thus found is given in **Table 2.**

As has been indicated before, the input-output model was not the only study related to the development in the sectors. Since the sector experts have also determined the growth rate of the individual sectors — staying, in each case, within the limits of their individual sectors — **Table 2** covers these rates as well

TABLE 2

SECTORAL (GROSS OUTPUT) GROWTH RATES IN THE PLAN PERIOD

Sector	Growth Rates by Type of Analysis	
	Input-Output (General Equilibrium)	Analysis of Sectors (Partial Analysis)
Agriculture	5.8	6.3
Industry	8 5	10.3
Mining	11 1	7 6
Manufacturing	8.3	10 4
Power	7 8	13 [illegible]
Construction	10 3	9 5
Transportation	7 7	10 3
Average	7.4	8.1

Source : Notes for the Colloquium on the **Technical Aspects of Turkey's Long-term Plan, 1962** (Mimeo), S P O Ankara 1962, p 30 and p 45

Since it is difficult to say, by looking at the table, which one of these two sets of growth rates has been the basis for the final formulation of the sector programs, one should examine the relevant Plan table.

TABLE 3

SECTORAL PRODUCTION IN THE PLAN PERIOD

In million TL. (1961 prices)

Sector	1962	1963	1967	1967 value of index 1962=100	Annual Growth Rate
Agriculture	34 690 0	36 470 0	43 560 0	125 6	4 7
Industry	21 192 9	24 180 1	36 227 2	170 8	11 4
Mining	2 341.4	2 589 9	3 577 4	152 8	8 7
Manufacturing	18 203 5	20 867 1	31 462 1	172 8	11 5
Power	648 0	729 1	1 187 7	183 3	12 8
Construction	5 403.0	6 063 0	8 983 0	166 2	10 4
Transportation	3 378 3	3 744 9	5 340 2	158 1	9 6
Total	**64 664.1**	**70 438.0**	**9' 110.4**	**145.5**	**7.7**

Source : Based on Table 52/1 of the First Five-Year Development Plan, 1963 - 1967. Data related to the construction sector have been taken from Table 275

As can be concluded from the above table, the basis for the planned growth rates is the partial sector analysis Although the Plan explicitely defends the opposite view, those who have participated in the preparation of the Plan are also of this opinion It is generally accepted that inter-industry analysis has had so pratical value.

After the sectoral production increases have been determined in some convenient manner, the main problem is to define the **sectoral distribution of investments.** In current planning theory, this has been reduced to quite a high degree of simplicity. Indeed, as is well known, the sectoral capital-output ratios, used with or without lags and adjusted according to the idle capacity in the sectors, constitute the basis for the formulation of the investment programs

This may lead one to think that nothing new can be learned by analysing this aspect of the first Plan The quotation below shows clearly that it would be mistaken to take this line of thought.

> «The capital-output ratio has been used in both an active and a passive form in the Plan. To determine the five-year investment requirements, the capital-output ratio of the last 10 years was applied to the increase in the gross national product The sec toral distribution of investments was made on the basis of projects, programs, and sector reports, the capital-output ratio in

this case is the result of weighing investments against the expected increase in output in the various sectors.»[2]

It is apparent that instead of determining sectoral investments through sectoral capital-output ratios, what has been done is that the capital-output ratios have been determined by the sectoral investments, and by the separately determined increases in output The capital-output ratios found in this manner are called, in the terminology of the Plan, «passive» capital-output ratios

Another point that should be clarified while describing the manner in which sectoral investment programs were formulated, is that the projects and project evaluation activities have been of little or no consequence in this respect

Setting aside the fact that no projects were expected from the private sector, this situation arose because the public sector was able to prepare only a very small number of projects, especially in directly productive fields

In the final analysis, the essentials of the sectoral investment programs have been determined through tough bargaining between the S P O and the relevant organizations. This procedure can be summarized as the combination of the results of what may be considered a fourth and totally independent study, with the results of the other studies included in the preparation of the Plan and described above

During the preparation of the Plan, all investing organizations were asked to prepare investment programs for the period 1963 - 1967 All the programs thus prepared were discussed one by one with the officials of the relevant organizations, and were ruled on Here, there has been a clash between the efforts of the officials to secure as large investment possibilities for their organizations as possible, and the planners' desire to channel investments into productive fields It is not difficult to guess that in the end, the power to resist and argue and the ability to secure political support proved more effective than economic arguments The result of these discussions is summarized in **Table 4** below

III. SOME CRITICAL OBSERVATIONS

As stated in the first part of the paper, all critical remarks will be restricted to the internal logic and factual consistency of the various studies mentioned.

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2 **First Five-Year Development Plan, 1963 - 1967,** Prime Ministry, State Planning Organization, Ankara 1963, p 126

TABLE 4

THE SECTORAL DISTRIBUTION OF INVESTMENTS

In million TL. (1961 prices)

Years	Agriculture	Mining and quarrying	Manufacturing	Power	Transport and Communications	Services	Housing	Education	Health	Tourism	TOTAL
1963	1213 2	457 8	2166 3	706 4	1298 0	581 0	2085 0	660 0	200 5	145 5	9513 7
1964	1712 2	735 2	2359 9	850 0	1355 9	426 1	2229 0	783 0	230 1	148 2	10829 6
1965	2182 0	794 6	2276 9	1057 9	1482 3	637 0	2390 0	795 0	278 2	164 7	12058 6
1966	2590 0	809 9	1726 4	1233 5	1851 9	1030 0	2594 0	836 0	320 2	175 6	13167 5
1967	2851 7	435 5	1559 7	1286 2	2171 3	1291 8	2818 7	1153 0	317 9	193 0	14077 4
TOTAL	10548 4	3233 0	10089 2	5134 0	8159 4	3965 9	12116 0	4227 0	1346 9	827 0	59646 8

In percentages

1963	12 8	4 8	22 8	7 4	13 7	6 1	21 9	6 9	2 1	1 5	100 0
1964	15 8	6 8	21 [illegible]	7 9	12 5	3 9	20 6	7 2	2 1	1 4	100 0
1965	18 1	6 6	18 9	8 8	12 3	5 3	19 8	6 6	2 3	1 3	100 0
1966	19 7	6 1	13 1	9 4	14 1	7 9	19 7	6 4	2 4	1 3	100 0
1967	20 2	3 1	11 1	9 1	15 4	9 2	20 0	8 2	2 3	1 4	100 0
TOTAL	17 7	5 4	16 9	8 6	13 7	6 6	20 3	7 1	2 3	1 4	100 0

Source : First Five-Year Development Plan, 1963 - 1967, Tables 50/1, and 51/1

1. The Relationship between Gross and Net Output

The increases, according to the Plan, in the production and the value added in the individual sectors is given in the Table below.

TABLE 5

RATE OF INSCREASE IN PRODUCTION

Sectors	Gross Output		Value Added	
	Value of index in 1967 (1962=100)	Annual rate of increase	Value of index in 1967 (1962=100)	Annual rate of increase
Agriculture	125 6	4 7	123 2	4 2
Mining	152 8	8 7	156 0	9 3
Manufacturing	172 8	11 5	183 2	12 9
Power	183 3	12 8	185 2	13 0
Transportation	158 1	9 6	164 7	10 5
Total	**143.7**	**7.5**	**139 7**	**6.9**

Source : First Five-Year Development Plan, 1963 - 1967, Tables 52/1 and 53/1

There is one evident conclusion to be derived from the above Table In all the sectors of the Turkish economy, except in agriculture, it is foreseen that one unit of gross output will, in the course of time, create value added at an increasing rate and will use intermediary goods at a decreasing rate Is this possible? Leaving aside an examination of the sources and the degree of realism of this assumption, we still know that the process of development — planned or unplanned—requires the contrary As shown by Professor Chenery in an empirical way,[3] the share of intermediary goods in the gross output, shows increases linearly with income. In fact, it can be seen from the Table that if the Turkish economy is considered as a whole, this situation would apply to Turkey as well It is therefore quite difficult to explain why the same condition does not hold for the individual sectors, and especially for manufacturing or mining. Actually, the following is said for the mining sector in the section on the value added in mining

«The cost of inputs is not great in mining Therefore, the value added by mining operations can be considered to be equal to the total value of production» [4]

3 H F Chenery, **Use of Inter-Industry Analysis in Development Programming in Structural Inter-Dependence and Economic Development,** T B Barna (Ed), MacMillan, 1963

4 **First Five-Year Development Plan, 1963 - 1967,** op. cit., p 175

This statement does not support the Table, but it should not be concluded that it is the only statement going against the line of development indicated in the Table. Later findings, and especially the studies for the Second Plan, indicate a **decreasing share** of value added

Of the two types of rate of increase, there is more reason to be confident about the one related to the gross output

2. The Analysis of the Construction Sector

The formulation of the program relating to the construction sector is far from being clear The output of the construction sector, the construction component of investments, and the investments into the construction sector, have largely been confused. In the section of the Plan related to this sector, the inputs are given under the name of demand projections and the outputs of the construction sector are indicated as investments Nowhere in the Plan is there a mention of the investments in the construction sector. Furthermore, there are no figures related to the construction sector in the section describing the main structure of the development of the sectors. The preceding tables indicate this situation clearly There may be many conclusions to be drawn from this, however, the most definite conclusion is that the investments of the construction sector have not been taken into account

3. The Determination of the Production Targets of Sectors

The weak points about the 1959 Input-output Table have been mentioned above, and it is not necessary to state them once more. There is no doubt that the Table reflects structural inter-dependence not only incompletely, but also, most probably, erroneously. In constructing a table that will indicate the structural inter-dependence of an economy, the task of making assumptions related to the details of this inter-dependence by looking at the «prototype of underdevelopment» should not be taken lightly, otherwise, the results obtained can be misleading in many ways Nevertheless, the fact remains that the Input-output Table is one of the most important technical studies conducted during the preparation of the Plan Doubtless, inter-industry analysis is the best sector model that can be used while consistency studies are being prepared.

The Plan has not made use of this important study. Final formulation has been based on trend equations or, at most, some regression analyses with one or two explanatory variables, of which

the levels of significance have not been properly tested There is no doubt that the predictive power of the coefficients calculated was increased with «suggestions from experts». Regardless of all such efforts, however, regression coefficients are not very useful in this type of work, especially under conditions which require a change in the composition of the product-mix On the other hand, when the time comes to constitute a whole out of the individual sector programs prepared according to these analyses, planning has no tools left, save the intuition of the planner; and intuition will not help the planner avoid making errors or prevent him from encountering situations which cannot be explained. For example, in the above tables it was indicated that the partial analyses envisaged a growth rate of 6 8 per cent for agriculture and one of 10 5 per cent for industry But, as it was realized later that agriculture would not be able to attain this growth rate, it was reduced in the Plan, while the growth rate of industry was increased It is clear that this procedure involves a double error that could have been avoided had inter-industry analysis been used properly

It is evident that faced with the dilemma of choosing between unreliable data or inappropriate methods of analysis, the latter was preferred The following Table is quite interesting from the point of view of indicating which of these alternatives approaches reality more closely.

TABLE 6

OUTPUT FORECASTS AND REALIZED GROWTH RATES

Sector	Input-Output (1962 - 1967)	Plan (1962 - 1966)	Realization (1962 - 1967)
Agriculture	5.8	4 7	3 0
Industry	8 5	11 4	8 8
Construction	10 3	10 5	8 0
Transportation	7 7	9 6	7 5

Sources · The first two columns are from the previous Table, the third column from the studies of the S P O Income Study Group

4. The Inter-relations between G.N.P., the Agricultural Sector, and the Industrial Sector.

The above observations suggest that the methodology used in the preparation of the sector programs is inadequate for constructing a consistent program. However, it is impossible, a priori, to rule out the chance that in spite of this, a consistent program may have

been made as a result of extraordinary intuition or luck on the part of the planners. It is also possible for the final program to be a consistent one, due to the mutual cancellation of the effects of errors, although **ceteris paribus**, it is extremely difficult, if not impossible, to increase the industrial output while decreasing the projected agricultural output

Indeed, the model developed in relation with the Second Plan has shown that the set of GNP, agriculture, and industry growth rates (7 per cent, 4 2 per cent, and 12.7 per cent respectively), is an inconsistent one[5] The economy faces difficulties in finding, for the near future, sufficient demand for an industrial production increasing at an annual rate of over 10 per cent; also in the case of a 4 per cent annual growth in agriculture, the increase in the consumption of agricultural products falls below the increase in population. Actually, the system has been solved for the period 1968 - 1972, and the coefficients have been adjusted accordingly; however, in the light of what has been said above, it becomes necessary to examine the performance of the first Plan in function of the same consistency criterion.

An experiment has been conducted for this purpose and interesting results have been obtained. For the experiment, the 1959 Table was first reduced to six sectors, it was complemented with the sectors that were missing, and it was converted to buyers'prices in the real sense of the term. A few corrections were made on the Table which have not effected its nature. In doing these, the coefficients of a multi-sector growth model developed for the Second Plan, and of the input-output table prepared for 1963 were used; care was taken, however, to keep the data essentially in the form that they possessed during the preparation of the first Plan.

All the information related to the final demand, except that on private consumption, was taken from the Plan and the document on the technical colloquium As the use of the elasticity coefficients cited previously for private consumption requires reliable base year data, which is not available, these were not used. Instead, the distribution for the 1963 Table was used. The rather interesting results of this experiment are given in **Table 7** below. The Table is clear enough and does not require any interpretation.

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5 **İkinci Beş Yıllık Plan için Alternatif Büyüklükler**, DPT (teksir), Mayıs, 1966 (Alternative Magnitudes for the Second Five-Year Plan, S P O. (mimeo), May 1966).

TABLE 7

THE INTERRELATION AMONG G N P, THE AGRICULTURAL SECTOR AND THE INDUSTRIAL SECTOR

Sectors	Distribution of Private Consumption	Final Demand	1967 Gross Outputs of Sectors	1967 Value of Index (1962=100)	Average Rate of Increase
Agriculture	0 470	26 284	45 538	131.3	5 6
Mining	0 011	855	3 231	138 0	6 8
Manufacturing	0 255	18 174	28 755	158 0	9.8
Construction	—	9 238	9 238	170 9	11.3
Power	0 003	218	1 299	200 0	14.8
Services	0 261	20 816	26 419	—	—

Notes : a The Table is in 1961 prices

b As the base year value for the 6th sector did not exist, the rate of increase was not calculated

c A part of the output of the construction sector goes to the repair of public buildings

5. The Implementation Aspect

The planner might have some answers to many of the criticisms put forth in this section Further, there may be those who consider the planner a powerful being who, in the technical jargon, possesses a very large degree of freedom Such an opinion may even be justified, when the time dimension is taken into account. For example, it is possible to rule out the inconsistency that was observed in the previous paragraph, by rationing the consumption of agricultural products and by imposing an increased consumption of industrial products, both in the intermediary and in the final stages. In the same way, it is possible to take measures that will really ensure the creation of the required capacity These imply changes in the parameters of the system The inconsistency will be apparent only so long as the market mechanism operates freely It should therefore be possible to eliminate, within a given time period, many of the above mentioned imbalances, through physical controls.

However, the Plan is full of «basic principles» that will lead all those who are of this opinion to pessimism.

> «Except for those budgetary expenditures where the basic decision is not one of price, the price mechanism will regulate the allocation of resources to various expenditure fields. However,

for the price mechanism to perform this function, regular measures will be taken: while avoiding, as far as possible, direct controls in the necessary adjustments to be made to ensure that scarce resources and incomes are allocated in accordance with the economic and social aims of the Plan, it will be necessary to have recourse to measures relating to tax and credit policies, the establishment and development of a capital market, and the definition of a foreign trade regime.»[6]

This is the principle that dominates the entire Plan. It is difficult to comprehend why planning should be resorted to when there is such a strong belief in the powers of the price mechanism. It is possible to take the measures that will ensure the normal operation of the price mechanism without constructing a Plan. Planning is meaningful only when the price mechanism is thoroughly inoperative or is not meant to be operative.

Yet, it is possible that the planners have believed in some sort of «information effect» of planning — believed that the declaration alone of the Plan might induce individuals, and especially the entrepreneurs, to undertake activities in accordance with it; that a rate of increase of over 12 per cent in industry might be interpreted to mean that the necessary demand for investments is there, and that this might in turn lead to the allocation of resources to industry.

The experience of the first Plan period has shown that such an expectation was not justified, and that in underdeveloped countries the resource allocation pattern required for a meaningful development effort can only be attained through physical measures.

6 **First Five-Year Development Plan, 1963 - 1967, op. cit., pp. 453 - 454.**

Appendix : 1 — INPUT-OUTPUT TABLE FOR TURKEY, 1959

In million TL. (1959 prices)

Producing Sectors	Consuming Sectors															Total Intermediate Sales	Competing Imports	Private	Exports	Private Consumption	Public Consumption	Private Investment	Public Investment	Inventories	TOTAL OUTPUT
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15										
Cereals and pulses	1233			2375		8560										7168			434	541				54	8197
Fruits and vegetables						858										858			17	7171					8046
Industrial raw materials and forestry					50	1702	478	275	197						7	2709	—35		1444	851					4969
Animal husbandry and fishing	110	110	110			3294	349	308								4281	—83		310	1703					6211
Mining and mining prospecting					10	24	19	8	5	104	594	412	2	83	153	1414	—111		147	70	30			47	1597
Food, beverages and tobacco industry				93												93	—124	10	655	10966	520				12110
Textile and clothing industry																—	—46	6	8	6488	282				6632
Timber and paper industry							176				724					900	—169		1	859	86				1677
Chemicals industry	58	57	58		17						39					229	—379		84	760	109				
Coal and petroleum products	54		32		18	24	12	12	28	4	26	126	15	62	1027	1440	—495			199	204			92	1440
Non-metals and construction industry											284					284	—45		2		105	2855	1590		4791
Basic metals											657	900	374			1931	—218		147						1860
Machinery																—	—935		15	—518	125	643	554		920
Electricity and water	30				28	30	50	11	7	1	81	20	16	29	13	266				294	29				589
Transportation	202	79	126	48	186	66	54	55	26	128	83	28	22			1103			4	773	89				1919
Intermediate total inputs	1687	246	326	2516	309	9558	1138	669	263	237	2438	1486	429	174	1200	22676									
Complementary imports	15	2	13	1		99	95	21	242		78	2	150	6	207					118		597			1641
Value added	6495	7798	4630	3694	1288	2453	5399	987	298	1203	2280	372	341	409	512										38159
TOTAL INPUT	8197	8046	4969	6211	1597	12110	6632	1677	803	1440	4791	1860	920	589	1919		—2640	31	3268	31261	1479	4095	2144	193	62476

Obtained from the Table in the S.P.O. Colloquium Paper, p. 21, by making the necessary changes.
For all sectors, value added = total inputs - (total intermediate inputs + complementary imports).

Appendix : 2

A Matrix

	1	2	3	4	5	6
1	.14360	03130	.43310	.00600	—	.00364
2	—	00626	02256	12398	14090	.01250
3	01280	.02190	06567	.30180	10526	19290
4	—	—	—	—	—	—
5	.00109	01753	.01531	.00647	.04923	.01677
6	.01647	11640	01489	01732	29540	.15390
Non-competing (Complementary) Imports	.00113	—	.02393	01523	01010	.10786
Value Added	82491	.80661	.42454	.52920	.39911	.51243

$(I-A)^{-1}$ Matrix

1	17865	06698	55195	18501	11271	.13413
2	.00109	1.01266	02798	13547	16079	02453
3	02141	.05802	1.08906	34173	20789	25336
4	—	—	—	1 00000	—	—
5	.002[illegible]4	02232	.01940	01598	1 06527	02588
6	.024[illegible]	.14943	04053	.05430	39989	1 20137

VII

THE PLAN AND THE AGRICULTURAL SECTOR

by
D. KAYRAN *

I. THE ROLE OF AGRICULTURE IN THE ECONOMY, AND THE PRE-PLAN PERIOD

In this paper devoted to agriculture, it will be attempted to establish, in broad outline, the place occupied by this sector in the economy as a whole, to define the general direction of the studies undertaken in connection with the sector, and finally to analyse the conclusions reached.

1. Manpower and Employment in Agriculture

The Development Plan defines this sector as including farming, forestry, and fishing. According to this definition, in 1960 74.9 per cent of the active population (or 9,737,489 people) was in agriculture.[1] It may safely be assumed that the corresponding percentage figure for the proportion of **total population in agriculture** was at least the same, if not higher

The above figure is a clear indication of the concentration of the population in the agricultural sector. 48.3 per cent of the active population in this sector is male. The remaining 51.7 per cent (female)

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1 **Population Census, 23 Oct. 1960,** State Institute of Statistics, Publication No 452 5299.

ratio is considerably higher than that of the active population in the other sectors. The fact that over 50 per cent of the active population in agriculture is female may, to a certain degree, be explained if one considers that agriculture is regarded not merely as an economic activity but also a way of life.

Even though the population assumed to be in agriculture constitutes the majority of the total population, quantitative information as regards employment in this sector is quite limited Mere casual observation, however, suffices to affirm the existence of a considerable amount of **disguised unemployment.** It is difficult to quote reliable figures showing the extent of this disguised unemployment, especially as there is a great deal of variation between regions and from season to season. Rough estimates, while far from providing a definite measure, show that in July 1960, 800,000 people allegedly in the agricultural sector could be dispensed with and that the comparable figure for January 1960 was 8,300,000.[2]

2. Agricultural Income and its Distribution

In the 1950's, 50 per cent of the national income was generated in the agricultural sector. For the 1960's, this ratio drops to between 40 - 45 per cent. Thus it is observed that the extensive development which took place in agriculture in the decade between 1950 and 1960 was more than counterbalanced by the development in the economy as a whole, and that the share of agriculture in the national income decreased. Another point broght to light by the above figures is that 74.9 per cent of the total active population contributes a mere 45 per cent to the national income. In effect, income per inhabitant employed in agriculture was 1,975 TL in 1960, while in the other sectors the comparable figure was as high as 7,715 TL. Further, a state of imbalance similar to that between sectors can be observed **within** the agricultural sector itself. Studies based on the assumption that no significant changes took place in the land ownership pattern after 1952, disclosed the fact that 48 per cent of total agricultural income is earned by 90 per cent of the people working in this sector, while the remaining 52 per cent is in the hands of only 10 per cent of the farmers in the high income category.[3] The income obtained by this second group is mainly derived from real estate.

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2 **The First Five-Year Development Plan, 1963 - 1967 Prime Ministry, State Planning Organization, Ankara, 1963 T 352, p. 400.**

3 **Ibid., p. 45**

3. The Basic Structure of Land Ownership

The Agricultural Census of 1963 includes supplementary data on land ownership tending to confirm the validity of the above ratios. The results of this census show that 87 28 per cent of the farmers own 51 34 per cent of the farm land while the remaining 12.72 per cent own 46 31 per cent.[4]

A discussion of the distribution of land ownership would not be complete without a brief examination of two related questions. The first of these is the problem of **scattered and fragmented farm land.** According to the data in the 1963 Agricultural Census, 44 per cent of all commercial farms consisted of 6 or more separate plots This state of affairs, caused mainly by current inheritence statutes, creates special difficulties with regard to irrigation investments in addition to raising the running expenditures of agricultural machinery.

The second problem is one of **inadequate legislation related to tenancy.** In the absence of regulating legislation, the contractual relation between land-owners and tenant farmers and share - croppers remains necessarily vague, the rights and obligations of the parties being open to arbitrary interpretation.

4. Land use

The following table summarizes the changes in patterns of land use in the 10-year period preceding the First Five-Year Plan.

TABLE 1

CHANGES IN PATTERNS OF LAND USE

in thousand hectares

Manner of Use	1950	1960
Area sown	9,868	15,305
Fallow	4,674	7,959
Pastures and meadows	37,806	28,658
Vinyards and orchards	1,466	2,060
Forests	10,418	10,584
Unproductive land	13,466	13,132
Total	77 698	77,698

The table clearly indicates the extensive development that came about in land use during the 1950's The acreage of cultivated land increased by more than 9 million hectares in 10 years, at the expense

4 **1963 Agricultural Census, Sample Results,** State Institute of Statistics

of roughly the same amount of decrease in meadow and pasture land This development can be cited as the most important single factor contributing to **soil erosion.** Indeed, present estimates are to the effect that 7 per cent of all arable land is undergoing erosion. For land with a slope of more than 6 per cent the threat of erosion is even more serious, given the fact that the special soil conservation techniques required under these conditions are far from having been properly developed

Another consequence of the expansion of cultivated land was an increase of 46 per cent in land per capita for the active population in agriculture, between 1950 and 1960 In the same period, production per hectare rose by 20 to 25 per cent in constant prices.

On the other hand, while the area taken up by meadows and pastures decreased by 9 million hectares in ten years, the numbers of livestock rose by 25 per cent in the same period. This imbalance contributed to a further aggravation of soil conditions through over-grazing and consequent erosion, while the feeding conditions, which were already far from ideal, deteriorated even further.

The 10,5 million hectares of **forest land** provide an average of 70 to 80 TL. worth of production value per hectare The low level of productivity is a natural consequence of the fact that 65 per cent of all forests are degraded Another factor is the continuing underutilization of existing production potentialities.

5. Agricultural Inputs and Technology

At the beginning of the Plan period, modern inputs to this sector were almost negligible Only 4 kg of chemical fertilizer and 1 5 kg. of pesticides were used per hectare. Feed concentrates were no more than 0.8 kg per head per year. Only 25 per cent of the need for improved seeds could be met Out of a total of 5 to 6 million hectares of arable land, only 1 million 115 thousand hectares were in fact being irrigated, with a mere 115 thousand hectares conforming to modern irrigation standards

The 1950's witnessed a rapid process of mechanization. The number of tractors increased by more than 400 per cent, so that in 1960 there was an average of one tractor for each 550 hectares as opposed to the 1949 figure of one tractor for 1400 hectares Without attempting to analyse the effects of this trend on the employment situation, it may be stated that the number of tractors in Turkey is still far below that in more advanced countries. Other agricultural tools and equipment required by modern advances in agricultural technology have increased at a much slower rate.

II. AN OUTLINE OF THE METHODS FOLLOWED IN THE DEVELOPMENT PLAN FOR THE AGRICULTURAL SECTOR

Work on the Agricultural Sector was essentially based on the general model prepared for all sectors of the economy. As with the other sectors, a committee was formed consisting of experts in the field. The studies initiated by this part-time committee were later taken up and completed by a special group working full-time

The work was carried out in three principal stages. (1) The preparation of an inventory, (2) Coordination work, and (3) The examination of extension possibilities, and pre-project work.

In the inventory stage it was undertaken to determine the extent and nature of the changes which had taken place in the sector during the last ten years and to describe the actual conditions of the pre-plan period. This involved the determination of existing capacity in the sector, of the distribution and utilization of capacity, of production inputs, and of the utilization of products and investments, within the framework provided by the general model. Adjustments were made in the directions indicated by the specific requirements of agriculture, this was the case, for example, in the compilation of information on such indicators of existing capacity as the acreage and utilization of land, changes in the area under cultivation, numbers of livestock, irrigated land, etc. This was the first phase of collecting all the statistical data on the sector. Without going into the question of reliability, we may state that statistical series exist for such topics as agricultural production, land use, numbers of livestock, etc. The principal difficulty encountered in making the inventory was the compilation of information on **inputs.** These were obtained through estimates based on special studies, as no ready data were available The obtaining of consumption series involved similar difficulties

The coordination efforts were aimed at formulating means for more effective utilization of existing resources through tecnical, administrative, and legislative measures, and without resorting to large scale investments. In the course of these activities, it became necessary to refer certain problems to the expert knowledge of specialists in the various fields Thus, for instance, the conclusion was reached that many irrigation problems could be solved with a special law regulating water rights; similarly, disputes could, to a large extent, be prevented through legislation effectively regulating the use of pastures. In the same way, it was established that considera-

ble and rapid advantages could be derived from emphasizing the extension work pertaining to irrigation systems developed by the State.

The third stage of the sector study was what can be called the 'decisive' phase. Here, the first part of the work was concerned with the investigation of development possibilities within the sector. The second part was an examination of investment possibilities.

Demand and production projections prepared with a view to determining development possibilities within the sector were carried out as outlined below.

1. Demand Projections

These were based on existing trends and various inter-relations.

a. Projection of existing trends. — The most important problem that should be mentioned in this connection was the difficulty of obtaining aggregate consumption series covering the last 10 to 15 years As has been mentioned in the discussion of the inventory stage, the collecting of this information necessitated independent studies. Starting out with production figures, consumption series were obtained as shown below:

Amount available for Consumption = Production + imports ∓ changes in stock — exports — seed — loss — feedstuffs

From the amount of ready for consumption was subtracted, wherever possible, the quantities absorbed by industry as raw material Sometimes, however, and for foodstuffs in particular, it was assumed that the total amount ready for consumption would be completely consumed. In a large number of cases where no information was available on changes in stock, it was assumed that there was no change.

The trend thus obtained was then traced and projected on the basis of three separate sets of assumptions· (1) that existing limitations and bottlenecks would continue with the same severity, (2) that certain of these would be overcome through coordination measures, and (3) that these limitations and bottlenecks would no longer exist. Projections were made for each of these three cases in order to have an estimate of possible demand fluctuations. Later, these three different sets of figures were subjected to a comparative analysis and a single set of what were considered «realistic» estimates was obtained.

b. Projections based on various interrelations. — This section was concerned with per capita demand Per capita demand was calculated by dividing total consumption — obtained as explained above — into population estimates for each year. The per capita demand figures thus established showed important variations from year to year in the case of items for which it was impossible to consider changes in stock Even in this form, however, the results obtained were useful, since an inspection of the series for the period was sufficient to give a general idea of the average level of per capita consumption and of the direction of changes in level Thus, the examination of the changes in the trend of per capita demand for consumption — taken together with the income elasticity of demand, consumption habits, and comparable information for other countries — resulted in a new set of demand projections. (In deciding on the method of this particular study, reference was made to a report by the FAO/ECAFE Expert Group)[5]

As far as possible, per capita demand estimates were then re-evaluated within the framework of the specific conditions of the country. In making estimates of demand for vegetable oils, for instance, consideration was given to regional consumption habits. In the West of Turkey olive oil is widely used, while in the East, animal fats are used. Habits such as these cannot be expected to change rapidly to any significant degree. On the other hand, in estimating per capita wheat consumption, it was noted that while Turkey is one of the countries with the highest level of per capita wheat consumption, this item was supplemented with products such as rye, barley, mixed grain etc., and that with increase in incomes, wheat might be further substituted for these crops

For the purposes of the study, agricultural products were grouped under the headings: cereals, pulses, fruit and vegetables, industrial crops, animal products, forestry, and fisheries. Each group was examined separately. Furthermore, items having a special importance within each group were given separate consideration Wheat, barley, maize, and rice in the cereals group, and sugar beet, cotton, tobacco and oilseeds from among industrial crops, can be cited as examples.

The estimates of per capita demand thus obtained were then multiplied by total population figures, and the total demand estimates thus obtained were compared with projections based on exist-

5 Selected Aspects of Agricultural Planning, FAO/ECAFE Expert Group, E/CN, 11/1 91, 13 January 1961

ing trends. A final set of demand figures was computed. Constant prices were used in the demand projections.

Projections of **export demand** for agricultural commodities were made through an independent study

2. Production Estimates

The work on production estimates was carried out in two principal stages In the first stage, the statistical series for the last 10 to 15 years were taken as a basis for estimates. In the second stage, the possibility of effecting changes in existing trends was examined. It will be noticed that the method is similar, in its general design, to that used for the demand projections.

Estimates based on existing trends took into account variations in the area allotted to each crop. The differences in yield for various crops and the consequent changes in volumes of production were likewise examined in making the above estimations.

The study of possible deviations from existing trends constituted the most important aspect of the work on production estimates

Although the general framework was the same, certain variations in approach developed in the course of the study, due to the specific characteristics of the subject matter. Annual crops, perennial crops, and animal husbandry, are examples of items requiring separate treatment. Unlike perennial crops, annual crops permit yearly rotation In practice however, annual crops are rotated only within the limitations imposed by such factors as the size and quality of land owned or operated, and the existing patterns and habits of land use such as fallowing practices, etc After these and other similar factors were taken into consideration, and groups of products and important crops in each group were examined separately, a practicable and economically feasible land use system was elaborated. In the preparation of the estimates, due consideration was given to the fact that the area allotted to a certain crop would, in effect, be dependent upon decisions determining the volume of production. In **animal husbandry,** changes in numbers of livestock were estimated.

Productivity projections presented a more complicated problem. Productivity trends for each crop for the last 10 - 15 years were determined together with possible future deviations from these trends. Various combinations of excluding and including the figures for «very bad» and «very good» years were experimented with.

The extent to which productivity would be affected by such factors as fertilization, improved seeds, irrigation, disease control, and better feeding — when these are taken singly and together — was established separately for each item. The necessary basic data was extracted from the results of experiments and research carried out by the State Agricultural Research Institutes, and some modifications were made to adapt the results to actual conditions.

Another point to be considered in conjunction with factors affecting the productivity level, was the extent to which such factors could be popularized For instance, if only 5 per cent of a certain crop was currently being fertilized, projects for a rapid increase in this ratio would meet with serious setbacks

An example might better serve to illustrate what has so far been stated :

The trend in cotton production volumes for the last 11 years showed an annual increase of 4700 tons. On the other hand, increase in the area devoted to cotton growing was limited by such factors as climatic conditions, prevailing production habits and practices, and the necessity of expanding irrigation facilities. Thus, to arrive at a healthy estimate of the likely increase in the acreage under cotton, it was deemed necessary to refer to the opinions of experts in this field

According to the trend of the last 11 years, the yield per hectare has increased by an annual 4 41 kg A yield per hectare was calculated for the end of the plan period on the assumption that the trend would continue as before. Later this assumption was examined with the aim of deciding whether this yield per hectare estimate was realistic and whether it was possible to exceed this amount This was done by determining the role of each factor effective on productivity. **Table 2** gives a summary of the procedure followed.

As can be seen in **Table 2**, it was assumed that the use of fertilizers and improved seeds would go together on irrigated land. The figures for irrigated land were computed on the basis of completed and continuing irrigation projects as well as those ready for construction Estimations of the degree of extension of improved seeds were supplemented by considerations about how often these seeds should be varied, and the existence of facilities for the preparation of improved seeds. In projections of output, additional factors such as expected improvements in disease and pest control services, and developments in agricultural extension work, were taken into account.

TABLE 2

PROJECTIONS OF COTTON (FIBRE) OUTPUT

	Area (1000 hectares)		Yield (Kg./Ha.)		Output (1000 tons)	
	1963	1967	1963	1967	1963	1967
Irrigated	290	400				
Fertilizers and Improved Seeds	250	400	450	500	112	200
Improved Seeds	—	—	—	—	—	—
Ordinary Seeds	40	—	280	—	11	—
Non-Irrigated	370	300				
Fertilizers and Improved Seeds	—	—	—	—	—	—
Improved Seeds	308	300	230	230	71	69
Ordinary Seeds	62	—	180	—	11	—

The study outlined above was repeated for each product group and for selected products within these groups. The results thus obtained were amalgamated and accepted as the basis for arriving at the following balances within the sector : (1) land use, (2) output — demand and nutrition, (3) feedstuffs — output in livestock production, (4) fertilizers and plant production, (5) traction power. This last was determined through a separate study, while the other balances were obtained mainly through adjustments in the data obtained at the conclusion of the above study. **Table 3** shows the production estimates obtained at the end of the preliminary study and after the adjustments.

TABLE 3

PROJECTIONS OF AGRICULTURAL OUTPUT, 1967 INDEX

(1962 = 100)

Groups of products	Preliminary Results	Adjusted Results
Cereals	111	115
Pulses	178	175
Fruit and Vegetables	129	125
Industrial Crops	141	132
Animal Husbandry	150	131
Fishing	278	280
Forestry	224	138
Total Agricultural Output	**138**	**125,6**

When the above adjustments were made, the average annual rate of increase in agricultural output dropped from 6.7 to 4.7 per cent. This last figure, however, was obtained in two stages, the rate of increase obtained as a first approximation being 4.9 per cent.

Adjustments were made in sectoral inputs, parallel to those in output projection. The result was a drop from 6 3 to 4.2 per cent in the annual rate of increase of value added. As can be seen from the difference between the rates of increase of output and value added, inputs increase at a faster rate than outputs in this sector.

3. Investments

No data was available to express the relationship between output and investments in quantitative terms, except in the case of investments for irrigation and land improvement. These last were examined in interrelationship with production targets, while for other types of investments, estimates were based on the results of special studies suggested by the specific requirements of the subject matter

Sector analyses included estimates of global investment requirements according to subject matter Furthermore, pre-project studies of expected investments by the various State agencies were collected and evaluated on the basis of rates of return. With agricultural projects, however, the rate of return criterion was not always applicable, because the number of projects containing sufficient information for the use of assessment criteria was very small. Thus, extensive use was made of the results of sector studies in determining investment requirements in agriculture In irrigation and land improvements, priority was given to the completion of projects under way With new projects, the principal considerations for the determination of priorities were (1) the state of readiness of the project and (2) whether or not the project would permit the realization of production targets determined for different crops Care was also taken not to create serious imbalances between regions through the choice of projects

In investments in machinery, priority was given to renovation, with additional emphasis on keeping the existing pool functioning in good condition. Investment requirements over and beyond this were determined with a view to answering the need for traction power and increasing the numbers of machines required by modern technological standards, preference was given to machinery which would not reduce the use of manpower to a great extent.

Investments in the field of animal husbandry aim at increasing livestock breeding facilities, and disease control

The larger part of forestry investments were devoted to opening up new forest areas to exploitation through rational forestry management, and to reafforestation activities.

The preliminary results obtained through investment estimates was a total of 14,1 billion TL. for the first five years. After adjustments, this figure dropped to 11 3 billion TL. (These magnitudes include non-monetized investment values) The following Table gives the yearly distribution of preliminary and adjusted investment values for the five-year period.

TABLE 4

AGRICULTURAL INVESTMENTS, 1963 - 1967

In million TL.

Years	Investment Values	
	Preliminary	Adjusted
1963	2230	1275
1964	2486	1823
1965	2797	2335
1966	3128	2780
1967	3493	3065
Total	14134	11278

It will be noticed that the adjusted results are considerably lower than the preliminary figures, especially for the first few years The fact that the preliminary figures for investment were much higher than the corresponding figues for the pre-plan period, and the fact that investing agencies could not be expected to attain, in such a short time, the degree of organization necessary to realize these investments, were the principal causes of this reduction.

III. THE AGRICULTURAL SECTOR IN THE DEVELOPMENT PLAN AND THE PRELIMINARY RESULTS OF IMPLEMENTATION

The Development Plan summarizes the objectives of agricultural policy under four main headings. The first of these is to maintain a 7 per cent rate of growth of gross national product without resorting to inflation; at the same time, to raise agricultural production,

with a view to expanding exports and meeting the growing industrial need for raw materials, and thus foster industrialization. In order for this target to be attained, the Plan foresees an annual 4.2 per cent rate of growth in the agricultural sector and a 4.7 per cent rate of increase in production. The outputs targeted to attain this rate of increase are summarized in the last column in **Table 3**, for each product group. The changes that would come about in the structure of agricultural production as a result of such an increase are shown in **Table 5**.

TABLE 5

COMPOSITION OF AGRICULTURAL PRODUCTION · 1962, 1967

Groups of Products	Percentage distribution	
	1962	1967
Cereals	23 1	21 3
Pulses	2.0	2 8
Animal feeds	15.1	13.7
Fruit and vegetables	19.7	19.5
Industrial crops	10.6	11 6
Livestock products	26 5	27 7
Forestry products	2 4	2 6
Fishery products	0 6	1.3
Total	**100.0**	**100.0**

According to the results of the first three years of the Plan, the rate of growth in agriculture was 7.6 per cent in 1963, -0.6 in 1964, and -2 8 in 1965. A 7 to 8 per cent rate of growth is expected for 1966. These important fluctuations in the annual rates of growth are evidence of the fact that agriculture still depends very largely on climatic conditions. When agricultural production is examined more closely and for each group of product, however, it becomes evident that with industrial crops for instance, where factors like fertilization, irrigation, use of improved seeds come into play, there is much less variation in annual rates of growth. It is to be noticed that neither in animal husbandry nor in fishery did developments reach the expected levels. In animal husbandry the development expected to result from the use of improved feedstuffs can by itself be attained with a one-year delay. With breeding of livestock, however, the time necessary to obtain tangible results is much longer. Furthermore, given present levels of income and productivity in agriculture (cf. para I.2), it is highly unlikely that larger areas can

be consecrated to livestock breeding at as fast a rate as foreseen in the Plan. Thus, the question of whether the Plan rates of growth are realistic or not, is one that is open to discussion. The failure to meet targets in fishery products is explained mainly by the lack of organization and by unsatisfactory marketing conditions, this last point being equally valid for livestock production.

In fact, the first few years' experience in implementation leads to the conclusion that in view of the length of time required for the realization of certain regulating measures, it is highly improbable that the rate of growth for the agricultural sector as a whole can be more than 4 per cent per annum for the first five-year period.

The principal measures to be taken for ensuring the expected developments, have been set forth in the Plan as follows :

a) An additional area of 515,000 hectares should be irrigated in the five-year plan period. To finance this program, 5 billion 433 million TL., or 45.3 per cent of total agricultural investment, is devoted to irrigation projects. The following table shows the percentage distribution of irrigated area among various crops.

TABLE 6

IRRIGATION BALANCE

Crops	Percentage of total irrigated area		
	Plan estimates		Implementation
	1962	1967	1965
Wheat	17.9	18 4	13 6
Cotton	22 4	24 5	24 8
Vegetables	16.1	12.3	16.0
Citrus fruit	2.2	2 3	2.4
Other fruit	14.8	11 8	9.7
Maize	6.3	5.5	5 0
Sugarbeet	7.3	6.4	7 4
Rice	5 4	4.6	4.3
Feed and forage crops	2.7	8 0	1.7
Others	4 7	6.1	15 1
Total	100.0	100.0	100.0

In the first three years of the plan period, an additional area of 236 thousand hectares was irrigated out of a planned 275 thousand hectares. The fact that the area irrigated by small water-works

was larger than estimated, has made the above result possible. The construction of large irrigation units, on the other hand, has advanced more slowly than expected; in particular, the development of secondary and tertiary canals has been outpaced by the construction of main canals

b) The use of fertilizers should increase to 1 million 166 thousand tons at the end of the five-year period, from its previous level of 200 thousand tons. The National Office of Agricultural Supplies, which is a state enterprise, was made the sole importer and distributor of fertilizers, with a view to ensuring uniformity of prices. The plan targets were approached during the implementation of the first three years; in 1965, annual consumption reached 800,000 tons.

c) Another important measure is the use of improved seeds. This program aims at supplying 75 per cent of the need for improved seeds. The program fell short of plan targets except in the case of two industrial plants.

d) The development of animal husbandry necessitates measures such as the improvement of pastures and meadows and the regulation of their use as well as the encouragement of specialization in the various branches of livestock production. In addition to these measures, preparations were made to abolish the practice of determining maximum levels in retail prices of animal products. This last measure was only partially realized during the first three years of the plan period Livestock breeding was further encouraged through the distribution of credits.

e) In the field of forestry, the Development Plan introduces the concept of rational forestry management, thereby reinforcing and supplementing the pre plan policy of mere conservation. The program is being implemented in accordance with this new policy.

f) Measures for rational exploitation of fishery resources have not, as yet, been realized — as for instance the improvement and control of marketing conditions, and the setting up of a new government organization responsible for this area.

g) The Development Plan envisages, in addition to the above measures, the development of agricultural extension work, the reorganization of research activities in agriculture, the supervision of credits, and the rendering in kind of certain credits. No important steps have been taken towards the reorganization of extension and

b) The size of minimum holdings will be determined in compliance with the requirements of rational land exploitation, and redistribution will be effected accordingly.

c) Scattered and fragmented plots will be consolidated.

d) Share - cropping and tenancy conditions will be regulated.

e) Holdings will be rationalized and cooperative movements will be promoted.

Evidently, special legislation was necessary before land reform could be realized. The first years of the plan period have gone by and no land reform act has yet passed through Parliament, although a bill has been prepared and has gone through various stages.

In its original form, the bill included all of the plan directives except the one on cooperatives The minimum and maximum size of holdings were determined separately for each climatic region, category of land, and according to whether or not the land was irrigated. Thus, maximum holdings varied between 275 to 5000 decares, and minimum holdings between 22 to 400 decares.

Later, the bill was amended with the addition of articles envisaging the foundation of cooperatives; the rules on the size of holdings remained unchanged.

The principal changes that were made in the third stage were concerned with the ceilings for maximum holdings. In this version of the bill, although the size of holdings was still determined according to climate, category of land, and irrigation conditions, the size of maximum holdings was reduced by about 50 per cent (140 to 2500 decares). This version, however, was also rejected. At present, a new bill is being prepared, and its basic features are not yet known.

The fourth objective of the agricultural policy outlined in the Development Plan, is to achieve a balanced utilization of land. The problem of the inefficient utilization and over-exploitation of land as a result of the extensive development of agriculture, and the problem of consequent erosion, have already been discussed in this paper (cf. para I.4) The fourth objective of the Plan envisages the resolution of this very question. The balanced utilization of the land presents a double problem: that of conservation and that of rational land use. This objective of agricultural policy is, by definition, a long-term objective. Measures for increasing productivity bring with them various changes in patterns of land use. These changes have to be

research services Supervision of credits and the granting in kind of certain items such as fertilizers and seeds, are measures that have been initiated.

h) The main principle of the price policy outlined by the Development Plan is the need to ensure price stability and to lower input prices where necessary. Price relations of agricultural products have so far been given very little consideration in Turkey. For this reason, the plan measures bearing on price policy remain rather vague, so that it is difficult to state whether these measures are being implemented in accordance with the basic policy.

The second objective of agricultural policy, as stated by the Development Plan, is to improve the nutritional standards of the population, especially by increasing the intake of animal protein foods. This is not an objective which can be achieved in a short period of time. A more rapid increase in livestock production, the increase of per capita income, and the introduction of new nutrition habits through education, will gradually make better nutrition possible

The third objective of agricultural policy is to further the social aims of the Plan through helping to reduce income disparities, contributing to reduced unemployment, discouraging unplanned urbanization, and emphasizing community development Reduced unemployment and the prevention of unplanned urbanization are problems whose solutions heavily depend on the creation of additional fields of employment in the agricultural sector Giving preference to those investments and types of production with high capacities of employment, and discouraging the use of agricultural machinery replacing large quantities of manpower were among the measures considered in this connection

An important measure advocated by the Development Plan is land reform. This is a measure that is in accordance with both the social aims and the production targets of the Plan; it aims at remedying the underlying economic and social deficiencies in the agrarian structure.

Below are the basic elements of the land reform proposed in the Plan:

a) Size of holdings will be determined by establishing ceilings for maximum holdings, and that part of private land which is in excess of the maximum limits will be expropriated and redistributed.

cultural price and stock policies envisaged in the Plan are not supported by specific and clear-cut measures. Since there are important fluctuations in agricultural output from year to year, the necessary measures should have been formulated in connection with the stock policy to be followed in order to maintain a stable rate of growth in the agricultural sector. The first three years' implementation efforts emphasize the importance of this point.

Another point brought to light through initial implementation efforts is that certain investment targets such as those connected with area under irrigation, could not be realized within the framework of the investment allocations established in the Development Plan. Irrigation investments were calculated on the basis of a per unit cost of 10 000 TL per hectare. Early results have shown that 13 to 15 thousand TL are necessary if the expected rate of development is to be attained in connection with irrigated areas. In this case, capital-output ratio in agriculture would be higher than 2.0 which is the figure in the Plan.

One final point is that from 1948 to 1962, agricultural output increased, on the average, by 3.5 per cent per annum. In the early part of this period (1948 - 1953), annual increase was around 6.5 per cent. This high rate of increase was attained through opening new land to cultivation From 1953 to 1962, average annual increase was no higher than 2 per cent. It is therefore obvious that the possibilities for extensive growth in agriculture no longer exist, and that intensive farming, through increasing modern inputs, is the only alternative left for realizing agricultural development. This evidently requires much greater effort. Moreover, with a population increase of 3 per cent per annum, and a planned annual increase of 2.4 per cent in per capita consumption[7], it is evident that an increase in agricultural output lower than 4 per cent is going to create serious problems In view of this double challenge, the rational development of Turkish agriculture becomes imperative.

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7 **The First Five-Year Development Plan, 1963 - 1967, op. cit., p. 33.**

VIII

THE PLAN AND THE STATE ECONOMIC ENTERPRISES

by
R. HAMMAŞ*

INTRODUCTION

The object of this paper is, on the one hand, to focus attention on one of the most important aspects of the Turkish economy and, on the other hand, to offer some concrete proposals that wil hopefully initiate a well-deserved discussion on a topic long dealt with only quantitatively and in a rather superificial manner.

Today, Turkey is passing through a period that is crucial not only politically, but also as a time for stocktaking, for assessing and evaluating the total economic structure, and for determining the next steps.

In addition to many other important issues, it seems that the appraisal of the public enterprises and the public sector in terms of achievements and failures, in terms of advantages and deficiencies, in terms of potentials both lost and still lying ahead, is of the utmost relevance in helping us determine these steps. Since the private sector will be dealt with elsewhere in this book, no drawbacks are involved in limiting ourselves to such a study of the public sector, i.e., of the State Economic Enterprises.

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price ceiling practices in retail prices of livestock products. Thus, Plan estimates of almost 2 5 billion TL worth of increase in feed inputs do not seem very realistic in view of the inadequacy of the related measures

Another point that should be considered in connection with an increase in feed production is that this last is largely dependent on non-agricultural inputs to the sector An important example of such non-agricultural inputs is fertilizers Thus, the Plan targets of agricultural output could only be reached through a 109 per cent increase in non agricultural inputs for the five-year period. As was pointed out earlier, in physical terms, 600 per cent increase in value terms is around 400 per cent This implies a reduction in average fertilizer prices Such a reduction was not realized in the first three years The high rate of increase in fertilizer use should not, however, mislead us, since total amounts of fertilizer initially used were very low An attempt was recently made to check whether the levels of fertilizer use proposed in the Plan were sufficient to achieve a 4.7 per cent annual increase in output The study, based on the findings of a paper published by the FAO[6], revealed that only a 4 per cent average annual increase could, in fact, be realized. Evidently, this conclusion needs to be substantiated by further study based on reliable data for Turkey

Another important point that should be emphasized is that certain targets foreseen for various inputs have not been supported by clearly formulated implementation measures. Examples of this are abundant, for instance, the Plan does not make the necessary allocations for programs such as those encouraging the use of improved seeds To put this last point more precisely, we may state that as the means for meeting operating capital requirements were not sufficiently elaborated in the Plan, there are no specific allocations to meet this need The first three years' implementation has shown that in cases where special funds were not set aside for the implementation of a certain measure, and where realization was left to coordination efforts, the work was either completely neglected, or it was carried out very slowly; this has in fact been the case with the seed program

This same problem of lack of specific allocations also comes up in connection with agricultural credit programs. Again, the agri-

6 **Crop Production Levels and Fertilizer Use, FAO, M S Williams and J. W. Couston, Rome, 1962.**

encouraged through the classification of land according to land use possibilities, and the introduction of rational utilization through institutional reforms and agricultural extension measures At present, efforts are being made to determine and classify the various types of land under cultivation, with greater precision

IV. CONCLUSIONS

When the Plan targets are examined from a critical point of view and in connection with the measures suggested for successful implementation, it is seen that certain points merit special attention.

The first point concerns the relationship between the volumes of increase in output and inputs in the agricultural sector. The Development Plan foresees an increase of 8 9 billion TL. in the value of agricultural output for the five-year period, as opposed to an increase of 3 5 billion TL. in the value of total inputs into the sector. Of these 3 5 billion TL , 2 5 billion are accounted for by agricultural inputs such as feedstuffs, seed etc , while the remaining 1 billion TL. is due to the increase in non-agricultural inputs such as fertilizers, pesticides etc. It is important to determine whether the increase in inputs and outputs are consistent with each other

As the Plan estimates are for total inputs into the sector, it is not possible to determine separately the contribution of each input item to the increase in output Nor is it possible to establish the relative shares of agricultural and non-agricultural inputs in the total inputs of the sector. (This last point was elaborated in the individual case of cotton (cf. para. II 2, and Table 2). It is, however, possible to compare the input-output ratios for the first and last years of the Plan period.

Considering that these ratios are 0.334 and 0.346 for the base and target years respectively, it may be stated that the Plan estimates for increase in inputs and outputs are consistent with each other. If, however, we examine the composition of the increase in agricultural inputs to the sector, we observe that almost all of the proposed increase concerns animal feed. Such an increase in feed inputs could only be realized through the implementation of certain important measures. The first of these, namely the bringing about of a change in existing patterns of land use through allocating more land to feed crops, could be realized if relative prices were adjusted in favour of feed crops, and if special extention efforts were made. The Plan measures in this respect, however, are confined to removing

The State Economic Enterprises (SEE's) with their diverse establishments and financial participations, occupy an important place in the Turkish economy. In the first section of this paper, we shall deal with the various aspects of this question. A qualitative approach to the problems of the SEE's, the need for a new perspective, and other managerial topics, will make up the second section.

I. THE TURKISH STATE ECONOMIC ENTERPRISES — A BRIEF FACTUAL SURVEY

1. Historical Development

Turkish SEE's can in no way be described as the product of any doctrinal approach. On the contrary, they are the result of an experiment that failed, and also a product of the times. The factors affecting the birth of these enterprises in Turkey can be classified in several groups

First, there is the 1923 - 31 period of failure. In this period every available resource and support was placed at the disposal of the then barely existing private enterprise. The Agricultural Bank was assigned the task of exporting the agricultural produce. The «Iş Bankası» was established with the objective of providing investment funds to private enterprise In 1927, the «Law for the Encouragement of Industy» eliminated many of the financial obstacles, and provided publicly owned sites for industrial development. Yet, due to many economic and social factors,[1] the expected development did not occur, and by the early 1930's, the fact that private enterprise was in no condition to help develop the country became apparent

Secondly, the 1929 World Crisis had already cast heavy doubts about the ability of the profit-seeking private enterprise to maintain a steady level of employment, much less to develop economically underdeveloped and politically unstable countries. Besides, at the time, private enterprise was far from being able to assume such an important responsibility—it lacked industrial talent, and it lacked financial as well as administrative experience. As such, it was incapable of influencing the revolutionary government or of lobbying in the Parliament to protect its interests.

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1 The much dwelt-upon factors such as the absence of accumulated capital, and the traditional concentration of enterprises in the hands of Christian and Jewish minorities, are only a few among others.

Thirdly, the Soviet, German, and Italian experiences exerted a considerable influence The Russian experience with its central planning, which at that time was just bearing its fruits — maintaining full employment and guiding the country safely through the dangerous waters of the 1929 World Crisis — proved to be a valuable example out of which something could be extracted and adapted to our economic and social needs. The German Nazi and the Italian Fascist movements, benefiting from their countries' peculiar problems, and with the aid of the 1929 crisis and its side effects, set the pattern for considerable state interference, albeit of a considerably different nature.

The influence of the intelligentsia was also considerable. This same intelligentsia later formed and backed the «**Kadro**» movement which advocated economic independence: achieving a high rate of economic growth without the assistance of foreign capital Today, despite the intervening 30 years, the articles published in the periodical carrying the name of the movement are still relevant and worth re-reading. Yet, the pragmatism and expediency of the system can be easily detected from the contradictory speeches of the leaders of the time, delivered on different occasions in front of different audiences Examples of deeds contradicting speeches and programs can be found just as easily[2]

If we exclude the state-owned Industry and Mining Bank (which was founded in 1924 to take over military factories inherited from the Ottoman Empire) and the various state monopolies, the first SEE was Sumerbank, established in 1933 Etibank followed in 1935, and in 1937 the Agricultral Bank acquired the status of a SEE The system was consolidated in 1938, with **Act No. 3460.**

Since during the period up to 1964 most, if not all, economic activity of the State was affected either positively or negatively by this law, it would be useful for our purpose to examine some of its more important articles.

2. Structural and Control Aspects of SEE's.

Act No. 3460 established two administrative bodies — The Administrative Board and the General Directorate — and two control bodies — the Parliamentary General Assembly and the High Control Board.

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2 For an excellent summary presentation of these periods, cf BORATAV, Korkut **Türkiyede Devletçilik (1923-1950) /İktisadi Düşünceler ve İktisadi Mevzuat/**, Türk İktisadi Gelişmesi Araştırma Projesi No 15 Siyasal Bilgiler Fakültesi, Ankara, 1962

In order to provide the enterprises with the necessary freedom in running their day-to-day operations, **Article 2** emphasizes their legal and financial independence, while **Article 3** frees them from routine governmental procedures which are regarded as obstacles to efficient administration of the business. **Article 14** establishes the Administrative Council, the composition and appointment procedure of which is left to individual enterprise acts

The General Directorate (the General Director and his assistants whose numbers are again left to individual enterprise acts) is to be appointed or removed at the instigation of the related minister and the approval of the Council of Ministers

Article 21 states that the operational and overall budgets and the staff lists are to be approved by the related ministry All employees are subject to the phenomenal «Bareme Law» — a general salary law with a scale from 200 to 2000 TL which is applied, with certain sub-ceilings, to the janitor as well as the General Director Further, **Article 42** entails the payment of a bonus which is not to exceed one month's salary (later two months). However, this ceiling gradually became the norm.

Finally, a very vague **Article 43** states that the Administrative Council, the General Directorate, and all employees, are responsible for acting as a «prudent merchant».

Articles 7 - 14 are devoted to the High Control Board. The Board is authorized to investigate the economic, commercial and operational efficiency of the enterprises and their establishments.

The Parliamentary General Assembly is made up of about 150 members from within and outside the Parliament It is authorized to review the activities of the SEE's using the High Control Board's annual reports, and, if any, the special studies undertaken by the same Board; and to approve the balance sheets and P/L statements

This system continued until after the 1960 **coup d'état.** The National Unity Committee, under the influence of certain civilian technicians, decided to investigate the matter First, **Act No. 23** took measures that were expected to resolve at least some of the SEE's «problems». When that failed, **Act No. 154** consolidated about a quarter of the outstanding debts of SEE's and, as will be discussed later, established an **ad hoc** commission to look into the matter in more detail. These efforts, and those of the State Planning Organization, resulted in the drafting of a new law to take the place of

Act No. 3460. Thus, the controversial **Act No. 440** was passed in March 1964. Though in many quarters it was admitted that the malfunctioning of the SEE's could not be attributed solely to the legal frame, a great many hopes and expectations were attached to the new law, as indeed the parliamentary minutes indicate

The Commentary to the Bill states that **Act No. 440** was designed with the aim of correcting the following «deficiencies»: (1) Inadequacy and irregularities in the system, (2) Imperfect independence of the SEE's, (3) Inadequate management and control, (4) Lack of coordination in many phases, (5) Inadequate capital and credit facilities, (6) Absence of uniform and clear accounting procedures.

To correct these deficiencies **Act No. 440** stipulates (here were are citing only the really new items):

a) The liquidation or transfer of participations not compatible with the lines of activity to be set by the Re-organization Commission,

b) The establishment of the State Investment Bank (under **Act No. 441**) to supply the SEE's with investment funds,

c) The re-evaluation of assets and liabilities of the SEE's, and the improvement and standardization of accounting procedures,

d) The establishment of a Re-organization Commission for the SEE's, to carry out, among many other assignments, the first and third of the above mentioned functions

3. The Place of SEE's in the Turkish Economy[3]

The SEE's, totalling some 130 units together with their participations, and utilizing assets and resources with a book-value of over 59 billion TL (the current value of which is modestly estimated at 110-135 billion TL.), constitute a significant portion of the Turkish economy

In industry, which provides 15 per cent of the GNP, the private sector supplies 51 per cent of the value added. 83 per cent of the industrial income is created by enterprises employing more than 10 workers or using machines with more than 10 HP. Here, there are 220 public enterprises (including public units with revolving or

3 This part will rely to some extent, on the «First Five-Year Development Plan, 1963-1967» The agricultural sector will be left out of the following analysis both because it is the subject of a different paper and because it is a sector traditionally dominated by individual ownership and small units. Incidentally, this sector accounts for 40 per cent of the GNP.

annexed budgets in addition to the SEE's per se), with an average of 575 employees; and 5200 private establishments with an average of 67 employees The respective importance of public and private enterprise varies widely from one sector to another For example in paper and, naturally, in alcohol and tobacco, there is virtual state monopoly, whereas in the construction field there is a clear-cut dominance of the private sector.

In terms of investments, the SEE's account for 17 - 19 per cent of the total (for the years 1959-61) Excluding state investments other than those of the SEE's, they account for 31 per cent (and those of the private sector for 68.4 per cent) of the remaining total for planned investments Actually, with the exception of the first year, the SEE's performed poorly; the reasons for this will be discussed later.

The SEE's were capable of financing only 53 per cent of their investments with their own resources (most of which came from social insurance and pension funds), and covered the rest from the government budget and with foreign borrowing

The net value added by the SEE's is not to be found; however, the State Planning Organization, in one of its draft projects for the Second Five-Year Plan, had computed the gross value added (at market prices) However, since these figures include other economic activities conducted by the State, it is necessary to deduct some items to arrive at a rough estimate of the gross value added by the SEE's By eliminating figures for alcohol and tobacco (at the time this study was written, no figures were available on metal products), we obtain a figure of 2,643 million TL. Naturally, a certain but presumably small error exists in this crude estimate

Total annual wages and salaries paid by the SEE's may be approximated in a similar manner Here we obtain a figure of around 1,000 million TL., and this is earned by a total labor force of roughly 300,000.

Finally, a few words on the profitability of the SEE's. Taking the present value of assets utilized by the SEE's as a base, we find that the profitability rate of the SEE's is around 1 per cent[4].

4 Though it can be argued that the efficiency of public activities cannot be measured through profitability, three important points must be considered in our case. **First**, the SEE's are working with less than 1 per cent profit **Secondly**, the present average profitability rates of the private sector in Turkey are estimated to be not less than 20 per cent Though cost of credit for the SEE's is around the legal 14 per cent, it is generally accepted that

4. The «Five-Year Plan» and the SEE's

It is generally claimed that the number of reports that have been prepared on the «problems» of the SEE's and on how these can be eliminated, is over 100 Local and foreign consultants and consulting firms were intived, reports were submitted, solutions were proposed, but few methods and procedures were developed, and none were put into effect.

The National Unity Committee, in its effort to settle the outstanding debts of the SEE's by consolidating them, also established the so-called «Under-secretaries Committee». With the aid of a large team of Turkish and foreign specialists, several voluminous reports were prepared on the individual SEE's; another report summarized the findings

With the establishment of the S P O and the preparation of the preliminary drafts of the Plan, the cause of the SEE's was forcefully put foreward The main theme was the transformation of these enterprises into viable units—units producing, rather than consuming, the funds that are so vitally necessary for the achievement of the target growth rate of 7 per cent

Yet, when the Plan was finally published much of the original forcefulness and drive was absent from the issue The problems were not faced squarely and they were not stated openly. What is more important, a so-called «mixed economy»[5] way of development was advanced as the **modus operandi** of the Plan—formulated, without any doubt, under the pressure of **all** the political parties then represented in the Parliament[6]

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commercial credits cost around 20 per cent, if not more As such, the opportunity cost of the capital provided and credits extended to the SEE's should not be below, say 10-15 per cent, at least technically speaking **Thirdly**, we have to agree that the State's right to interfere, for social purposes, in SEE pricing can be justified under two basic conditions **The marketing of products and services, with prices set by the State** directly for the final consumer, through an official channel, is the first of these conditions In cases where normal marketing channels must be utilized, the control of **markups** is the second On the other hand, the realization of either of these two conditions necessitates political decisions that are incompatible with the rules of the proclaimed «mixed economy»

5 Item 3 of the «**Objectives and Strategy of the Plan**» is as follows «The Turkish economy is a mixed economy, where public and private enterprise function side by side The planning activities should exploit all the opportunities provided by the mixed economy and the **rules** of this **system** should be applied » Is there such a **system**, and are there indeed any such rules?

6 The common argument of these politicians is chiefly concentrated on «constitutional rights» and «democratic freedom», and on the «**sacredness**» and «sensitivity» of private enterprise

According to the «**Objectives and Strategy of the Plan**» (Item 7), «. The SEE's must become important fund producers. An end should be brought to the sacrifices made in the SEE's capabilities, to provide investment funds for the sake of a piecemeal and uncoordinated social justice effort »

In the Plan itself the general objectives are stated. Here, in our opinion, lies one of the most significant statements Item (a) of the «Rules of the Mixed Economy» states that « in the Plan, the amount of savings to be created by the private sector was initially estimated on the basis of previous trends; but after considering the measures to be taken by the State to encourage savings, estimates were readjusted on the assumption that in the plan period the private sector could realize a graeter volume of investment by means of individual and corporate savings Therefore the measures taken to raise private savings may result in a decline of total savings and thus cause an inequality in the distribution of income Under these circumstances, the funds created through an equitable tax system and by **the State Enterprises will also play an important role in increasing the resources required for economic development.**[7]

This indicates, among other things, that the objectives set initially for public investments were reduced in favour of the private sector The objectives thus established may be below what is ideally possible, in practice, however, and despite the fact that they were set in co-operation with the SEE's top management, they proved to be too ambitious While the SEE's realized 83 per cent of their projected investments in 1963, in 1964 this rate dropped to 66.3 per cent. In 1965 it is expected to be even lower. Lack of funds could not have been the sole reason for this poor performance either · Funds for about 20 per cent of the projected investments remained idle in the State Investment Bank, available for the asking.

Another important point is that the Plan does not stipulate the necessary separation between the enterprises with a public utility nature and those competing with the private sector Since different strategies, objectives, and policies are involved, the common-for-all objectives set by the Plan are apt to lead to inconsistencies in implementation. Without passing any further judgment on this point, it would be useful to point out some of these contradictory and incompatible objectives set for the SEE's On the one hand, these enterprises are to compete on all levels with private enterprise in the

7 **First Five-Year Development Plan, 1963-1967,** Republic of Turkey, Prime Ministry, State Planning Organization, Ankara, 1963, p 54.

'mixed economy'; on the other hand, they are assigned the task of helping the development of backward regions; further, they are to be in the vanguard of progress in the industrial sector, and also to set up establishments in new fields of production requiring a high level of technical knowledge and a considerable amount of capital. All of this automatically means no profit, and more statements in the red

The relationship with the private sector is based on a double-edged sword named «equality». In terms of financial funds, the SEE's enjoy a clear-cut superiority over private enterprise. However, this superiority is more than counterbalanced by the market adaptability and the decision-making flexibility of the profit-oriented private enterprise The existing split-up of the market between the two in the various sectors of the economy, is expected to remain as it is today — the apple cart is not to be upset.

In view of all these conditions, the Plan envisages the reorganization of the SEE's on the following pattern:

a) To ensure rational and productive work at the management level, enterprises will be managed on autonomous lines,

b) State Enterprises and their resources will be considered globally as an instrument for the realization of development objectives, and a common fund will be set up for the purpose of directing resources to various fields,

c) New arrangements will be made which will promote unity in working and control methods and other administrative matters, and will ensure coordination in investment, production, sales and purchases, and cooperation in the use and exchange of equipment and personnel.»[8]

A Draft Bill was presented to the Parliament in 1963, presumably to achieve these and many other ends This became **Act No. 440** (cf. above), and it brought with it the Re-organization Commission for State Economic Enterprises Legally, the Commission is made up of six part-time members: the Under-secretaries of the Ministries of Finance, Commerce and Industry, and representatives from the S P.O , State Personnel Department, and the High Control Board. This temporary establishment (the Commission was originally set up for two years, but was later extended for another two, up to

8 **Ibid., p. 91.**

March 1968), is authorized to recruit specialists from the SEE's as well as from outside. A full-time Chief Advisor is assigned the task of supervising and co-ordinationg the activities of the specialists.

The argument behind the designation of such high-level and over-occupied persons for such an important duty was that they were the only people in a position to put the recommendations into effect with the necessary force As it turned out, however, the Commission found itself dwelling on the details, arguing over matters already settled by the technicians and specialists, and consequently proceeding only very slowly in making the recommendations

However, the fact that it is working rather slowly for the moment — due to the way it was created to begin with — should not lead us to overlook its potential importance.

II. THE NEED FOR A NEW APPROACH

So far we have summarized and tried to give an overall picture of the present situation in the SEE's Here we attempt to formulate the question in a different perspective.

First, we should mention some of the considerations leading to the choice of this new approach.

a) It can hardly be said that investment criteria were clearly defined at the early stages of the SEE's. The Acts of the individual enterprises and especially that of Sumerbank, have kept the lines of activity so wide that no criteria can be detected at all. Anything of local, regional, or national, interest was acceptable Thus Sümerbank's establishments and participations have included, at one time or another: iron and steel, mining, ore mining, pulp and paper, textiles, leather and shoes, porcelain and ceramics, cement, iron pipes nitrogen, truck transport, warehousing, food, feed, pressed wood, banking and insurance. The Agricultural Bank's list is in no way less impressive. Participations were decided at a moment's notice, stores were opened in 24 hours, and agricultural tests were carried out for VIP's farms Yet, we believe that to consider these as the problems that have to be corrected, is simply to evade the real issue, a way of diverting interests away from it These are no more than the symptoms of the main problems built into the system, so to speak, and we strongly believe that as long as they are not thus identified, the groping in the dark will continue, and the position of the SEE's will worsen. We also believe that a large part of what are called the

«problems» of the SEE's are only products of an enviroment within which SEE's are of necessity obliged to function.

b) Even in countries with a considerably more alert public opinion and with politicians relatively more sensitive to this public opinion, political control of economic enterprises can hardly be clearly delimited, due to the quasi-impossibility of a clear-cut separation between day-to-day operations and policy matters. Thus, the independence of the SEE's, as stipulated in the many reports and Acts, is merely nominal Experience has shown that the greater the efforts directed towards achieving this end, the more tenacious becomes the opposition to — and actual interference in — the operations of the SEE's (Though it may seem cynical, one is tempted to think of such measures as bearing a sign saying: «to be used when in opposition»).

c) The SEE's are not only required to play the «mixed economy» game and play it according to the game's extremely vague rules, but they are also expected to match private enterprise's achievements. We believe that here lies another pathetic fallacy. No matter which way we look at it, private enterprise is not comparable to the SEE's Private firms are smaller (much smaller indeed), comparatively less productive, and labour intensive, industries. Their organizational structure cannot be compared with that of the SEE's. In terms of training personnel and utilizing them, they lag behind the SEE's

On the other hand, as far as purchasing is concerned, even the simplified procedures cannot help the SEE's, because here they are dealing with vested interests that can easily organize and nullify all protective measures

In the matter of pricing, the SEE's are doubly limited. First, there is the State's unquestionable right to interfere in pricing[9]. Secondly, various control bodies (the Enterprises' and the Ministries' Boards of Inspectors and the High Control Board) are in the habit of concentrating on the easily controllable items that are clearly stated in the books (accounts, limits, vouchers, payments, purchasing decisions, etc); this has forced the managers of the SEE's to attach priority to not showing any losses in the books — at the ex-

9 Part 2 of Article 24 of Act No 440 limits this interference to basic goods and services, and stipulates the funding of losses resulting from such an interference with allowances from next year's budget. Cf. also footnote (4) to this paper

pense of sizeable opportunities missed through inaction or through over-precautious indecisiveness It is for such reasons that inventory items losing value at a substantial rate are kept in the books at their original value, and even financed with external funds, rather than being sold at prices that will incur losses. Again, in many cases, product pricings is handled not with economic or even social considerations, but rather under the negative influence of these control institutions and according to their concept of control

d) Another important point that must not be overlooked is the size of the SEE's Many of these enterprises must be considered as giants even by 'western' standards If we exclude the Ereğli Iron and Steel Works (which is regarded as an example of private enterprise's foremost achievement in Turkey — despite the fact that 51 per cent of its capital is paid by the State, and that an amount equal to its total capital has been extended by the State as credit), private enterprise is much smaller in size and thus easier to manage and control. As the organization grows in size and complexity beyond a certain critical point, as the numbers of influencing external organizations (such as the State Planning Organization, State Personnel Department, State Investment Bank, the Chambers of Commerce and Industry, and many other control authorities) increase in number; as the numbers of vested interest groups — which must be conciliated one way or another — increase, the regulations set up years ago under conditions completely different from those existing today, begin to harass the management and demoralize the rank and file. It is small wonder that most of the successful managers occupying key positions with private enterprise are one-time SEE employees, who were also recipients of SEE scholarships. **And the lack of adequate remuneration is not the main cause for this situation, nor can this continuous outflow be checked by mere financial measures.**

e) To sum up, the 'problems' of the SEE's in their most general context, are an inseparable part of the entire set of issues faced by a society whose value concepts on social classes, mobility, culture, politics, and especially on the State and its functions, are still unchanged despite modern appearances They are simply symptomatic of a society (with its unchanged intrinsic values) trying to utilize 'western' instruments to attain its never clearly stated and identified objectives and ideals.

Though the Japanese experience can be cited as an example of the possibility of achieving technological change and economic growth without any change in the social patterns (such as large

families and patriarchal authority), this, in our opinion, is not a comparable case. In fact it is almost impossible not to sympathize with Nimkoff and Middleton's findings that, especially in the Middle Eastern countries, a radical change in social patterns is an avoidable necessity.[10]

f) As has certainly been noticed, we have continuously used the word «problem» in quotation marks. This has been done on purpose for reasons that will be explained below.

We do not believe that there is such a thing as «the SEE's problems». On the contrary, we are convinced that what has been persistently phrased as «the SEE's problems» is simply the local symptoms of an ailing infrastructure, and that the phrasing is part of a strategy (not necessarily organized or even conscious) aimed at discrediting the SEE's.

Further, we believe that the re-organization efforts — as they stood in the past and stand today — are based on a set of utterly incorrect justifications, and lack any valid basis. The fact is that in Turkey, private enterprise — with its present attitudes, patterns of thinking, and working habits and methods—can hardly survive on its own, without the SEE's. Its enhancement is closely dependent upon the existence of an enterprise system that will, among many other things, (1) train personnel and act as a selection pool, and (2) supply many of the raw and semi-finished materials at less than what they would have cost, had they been produced by a profit-oriented enterprise.

We had pointed out that at least with its present structure, private enterprise is considerably dependent on the SEE's. But it is also quite clear that the advancement of the SEE's beyond a certain level — in terms of power, technology, manpower, operating methods, and market efficiency — will constitute a threat to private enterprise These last two items may seem contradictory at first sight, but they are in fact complementary. Further, this is precisely the reason why efforts are made (organized or not, conscious or not), and «brains are washed» to denigrate the status of the SEE's

Together with this, naturally comes the talk about reorganizing the SEE's. It can be shown that this discussion leads to considerations very similar to those mentioned earlier. As we have im-

10 «Is the joint Family an Obstacle to Industrialization», **International Journal on Comparative Society**, 1, 1960, pp 109 - 118

plied above, the SEE's are live organisms occupying a certain place in a dynamic society — they influence, and are in return influenced by, the social structure, there is a lot of give-and-take, a certain feed back As such, many of the measures taken to reorganize the SEE's and to rid them of their alleged «problems» are unlikely to produce any results.

It is evident from what we have said so far that a new philosophy and way of thinking are necessary, if we want to understand the SEE's and evaluate them correctly This philosophy and way of thinking must be, of necessity, radically different. The elaboration of such a philosophy is beyond the scope of this paper Instead, we will propose here some measures which, although they may not be radical, are nevertheless of some value in contributing towards a healthy development of the SEE's **in the hands of capable and dedicated managers.**

a. In terms of organization. — As a first step, lines of activity for the SEE's must be determined through special legislation. This is stipulated by **Act No. 440** and is presently being done by the Reorganization Commission

Participations not compatible with the lines of activity thus determined must be liquidated — i e. shares held by the State, by the SEE's, or by both, should either be transferred to the related enterprise or disposed of in the market This is also stipulated by **Act No. 440,** and studies are being made on this touchy subject. Though in the past loose regulations and the absence of definite criteria have had a certain influence on the mushrooming of participations, this is no justification for the continuation of this state of affairs.

There is no need to add that such a re-alignment of the SEE's will **help** the establishment of effective and rational management and the installment of an efficient control mechanism.

b. In terms of personnel policy. — The General Managers, their assistants, and the members of the Board of Directors, must be appointed for a five-year period, corresponding to the Five-Year Plan periods; and these persons should not be removed unless there are compelling reasons to be approved by a special commission. In this manner, the activities of these enterprises will be geared to the planning activities. Again, such a measure will most probably curtail excessive turnover among the top management, with its highly demoralizing and efficiency-reducing effects. Certain measures should

be taken to ascertain the qualifications and calibre of administrators, and also to ensure that they assume full responsibility for actions taken within their knowledge and authority, in the effort to achieve the Plan targets.

c. **In terms of managerial control instruments.** — The techniques of job description and job evaluation should be utilized in determining real staff requirements.

In cases where over-staffing has been found to exist — out for various social reasons cannot be eliminated — a certain formula should be developed to separate the cost of this excess labour, and to charge it to profit and loss statements instead of charging it to manufacturing costs. This will provide us with actual costs as compared to the present social ones.

Changes in the accounting procedures, that will provide top management with basic controls, are indispensible. These should enable the management to get quick, accurate, and meaningful computations on sales, profits, investments, productivity, pay-back periods, cash flows, cash budgeting ratios and procedures, etc.

Taking into consideration the excess inventory and the heavy financial burdens resulting from the borrowing necessary to maintain such an inventory, definite measures are required to compel the SEE's first to compute their standard inventory levels and secondly to liquidate the excess amounts. For example, a penalty equalling the current cost of money should be levied on excess inventories of enterprises. This will stimulate the SEE's to give a lot of consideration to this important subject that has long been neglected, and partly for good reasons from the administrators' point of view.

d. **In terms of higher control bodies.** — The system brought by **Article 1 of Act No. 468** (the Parliamentary Mixed Commission for SEE's, consisting of 15 Senators and 35 Representatives) must be modified. This Commission should be given a structure similar to that of the High Planning Board — i.e. a mixture of technicians and politicians. Thus, on the one hand a more realistic evaluation of achievements will be obtained, and on the other hand, the control of top management will be based on relatively more dependable semi-technical considerations, rather than on shaky political and personal grounds.

The structure and working methods of the High Control Board and various ministerial inspection mechanisms must be re-organized

before re-organizing the SEE's. The time, money, and effort spent through the present control systems on inspecting and controlling the minute details of the SEE's are definitely not yielding a good return. The once-popular proposal envisaging a certain training period at managerial and responsible positions is not without value.

III. CONCLUSION

To sum up all we have said : The SEE's have been, are, and will continue to be, the backbone of the Turkish economy.

There is no such thing as the «SEE's problems», that can be solved on their own. The SEE's are live and highly complex organisms of the Turkish economic structure, and as long as the structure is not considered as a whole, as long as the diagnosis is not carried out for the entire structure, every effort directed solely towards the SEE's will, on the one hand, divert interests away from the real problem, and on the other, will harm the cause of the SEE's.

Planning studies must be oriented towards an understanding similar to the one described in this paper.

The real solution of the problem requires an outlook much more radical than that adopted so far Nevertheless, there are many measures which could be taken without arousing too much consternation; and while, by definition, they would not have any long-lasting effects of their own, they could be of use at the hands of a team of convinced and dedicated top management executives.

IX

THE PRIVATE SECTOR IN THE FIVE-YEAR PLAN

by
Dr. İ. ÖNGÜT*

INTRODUCTION

In the early Sixties, when the First Five-Year Plan was introduced, the Turkish economy was still recovering from the after-effects of a decade of rapid transformation and inflationary expansion. The Fifties had seen a new release of energy from the countryside with the opening up of new land under mechanized agriculture, and ambitious investment activity in public overheads and industry. This was the result of the policies of the Democratic Party which had won an overwhelming electoral victory in 1950 and pursued a policy of uncontrolled expansion throughout the decade Generous foreign assistance, contributing in a large measure to the fulfillment of the «undreamt of development» dream, could not make good the deficit in the national balance sheet. The resulting inflation brought with it economic, social and political disturbances, leading to the Revolution of 1960

The economic philosophy of the Democratic Party was liberal. Not only was development to be achieved through private enterprise, but also the structure of ownership in industry was eventually to be transformed, through sale of the existing public enterprises. This

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was a sharp reversal of the étatist policies which had envisaged the development of the economy through the creation of public enterprises.

As it turned out, however, the Democratic Party governments found it necessary to impose more and more controls on the economy as it got deeper into inflation, and to rely to a large extent on the public enterprises to further their investment policies. The public sector expanded side by side with the private sector during this period, and, paradoxically, the share of public investment in the total was larger at the end of the decade than it had been at the beginning.

The need for planning was recognized and voiced before the 1960 Revolution and the establishment of the State Planning Organization. What the Revolution brought was an atmosphere of free and lively discussion on the long-term development goals and problems of Turkey and on the economic system under which rapid growth could be achieved.

Opinion was divided among the Military as to the nature and extent of the reforms needed by Turkey and as to who should carry them out A minority group in the Committee of National Unity wanted to carry out radical reforms. This group, however, was eventually defeated, and power was handed over to a Constituent Assembly, and later to a civilian government formed after free elections

It was under military rule that the State Planning Organization was established and the strategy of the First Five-Year Plan was formulated The «Strategy» document, setting forth the economic and social goals of Turkey's development, gave a broad indication of the roles to be assigned to the private and the public sectors in the First Five-Year Plan.

I THE PRIVATE SECTOR IN THE FIRST FIVE - YEAR PLAN

1. Investment Targets

The Plan Strategy called for a 7 per cent annual growth rate. This was to be achieved through private initiative as well as public action, one complementing the other, so to speak, in a concentrated development effort The planners faced the task of assigning specific targets to the private and public sectors

The Plan was based on a Harrod - Domar type of growth model which, with a given target growth rate and estimates of capital-output ratios, gave the required volume of gross investment.

An estimate was then made of the volume of private investment which would be forthcoming during the plan period. Total investment minus expected private investment gave the volume of required public investment. This, in most simple terms, was how investment targets were determined for the two sectors of the economy

An attempt was made to estimate the volume of private investment for the plan period on the basis of past data. However, no definite relationship could be found between private investment and other macro-economic magnitudes, such as the GNP, which could be used for making projections for the future As stated in the Plan, «past investment series do not reveal a specific trend. The volume and distribution of private investment in past years was largely influenced by inflation, foreign trade restrictions, and the political situation».[1]

In the past, during the three years prior to the initial year of the Plan, private investment had varied between 6-7 per cent and averaged about 7 per cent of the GNP. Planners expected a gradual rise in this ratio Private investment was estimated to increase by 11 per cent annually during the plan period, and to reach 8 per cent of the GNP at the end of the five years This was more or less a common-sense estimate, and it turned out to be a realistic one.

There is, of course, a basic problem in planning for a mixed economy. Since the plan cannot be binding for the private sector, the planners can at best try to influence the behaviour of the private sector by certain policy measures The difficulty lies in making predictions about the response of the private sector to the various incentives and disincentives which may be used as policy instruments in the plan. For example, tax allowances designed to stimulate private investment may result in increased consumption, or certain types of taxes designed to raise public savings and investment might well produce a corresponding decline in private savings and investment

The Plan expected an average annual increase of 11 per cent in private investment Past trends, as well as policies which would influence investment decisions during the plan period, seem to have been taken into account in determining this target.

«The increase in production and economic activities to result from planned development is expected to stimulate private investment. This, together with the measures of encouragement to be taken,

1 **First Five-Year Development Plan 1963-1967**, Prime Ministry, State Planning Organization, Ankara, 1963

should make it possible to realize investment targets in the private sector.»[2] The «measures of encouragement» suggested in the Plan will be discussed later. Here we would only like to point out that in setting the targets for the private sector, the planners took into account — if not in specific terms, at least in a broad sense — the response of the private sector to the environment and the incentives which the Plan would bring.

The investment projections in the Five-Year Plan for the private and the public sectors are shown below:

TABLE 1

INVESTMENT PROJECTIONS FOR THE PUBLIC AND PRIVATE SECTORS, 1963 - 1967

Year	INVESTMENT					
	Private		Public		Total	
	Billion TL.	% of GNP	Billion TL.	% of GNP	Billion TL.	% of GNP
1963	3 8	6.7	5.8	10.3	9 6	17.0
1964	4.2	7.0	6.6	10.9	10 8	17.9
1965	4.7	7.3	7.1	11.0	11 8	18.3
1966	5.3	7.7	7.8	11.3	13.1	19.0
1967	5.9	8.0	8.4	11.4	14.3	19.4
Average Annual Rate of Increase	11.0		10.6		10.7	

Source: The First Five-Year Development Plan, 1963 - 1967, p. 108.

The table shows that planners expected a more or less equal effort from the private and the public sectors, as far as investment activity is concerned. Private investment accounted for 40 per cent and public investment for 60 per cent of the total.

The Five-Year Plan provided a breakdown of total investment by sectors of the economy; the sectoral breakdown of private and public investment, however, was not shown separately. For the private sector, projections were made for investments in housing which, if deducted from projections of total private investment, would give private investments in directly productive activities.

2 Ibid.

For the public sector, the Plan provided neither for a sectoral nor an institutional breakdown, i e. in terms of central administration, local authorities and state economic enterprises. Projections of the sectoral distribution of total investment and the sections of the Plan on economic sectors gave, however, a broad indication of the expected directions of public investment Specific targets for public investment were left to Annual Programs.

The Plan states that «it is neither necessary nor possible to draw a definite line between the activities of the public and private sectors».[3] However, «total investments as well as the investments to be made in each sector by the State and private enterprises will be indicated in the Annual Programs».[4]

Investment by the public sector in basic services and infrastructure are indicated in the Plan. Where direct investments are concerned, «if the private sector does not invest in a field which is regarded as necessary in the Plan and this situation creates significant bottlenecks in the economy, the state or public enterprises will readjust their investment programs to assure realization of the necessary investment».[5]

2. Guidance and Incentives

The Plan expected from the private sector that it (1) accelerate its rate of investment, (2) shift investments from construction of dwellings to directly productive fields, and (3) change the composition of direct investments in favour of activities specified in the Plan and Annual Programs It is stated that the private sector will be assisted in the fulfillment of these goals by various economic policy measures and incentives

The Plan measures to provide assistance and guidance to the private sector may be considered under four headings : (1) «Establishing the environmental conditions», (2) Protection from foreign competition, (3) Financial policies, and (4) Fiscal measures.

a. «Economic Order and Environmental Conditions». — The Plan points out that the general economic atmosphere which will be created through planning will be conducive to the development of the private sector. Emphasis is placed on the maintenance of econom-

3 Ibid., p. 54.
4 Ibid., p 55.
5 Ibid.

ic stability, the improvement of market intelligence services, and the training of technical and administrative personnel. «The Plan facilitates to a large measure the performance of the entrepreneurial functions of the private sector, by making it easier to estimate future demand and the situation of markets and to take decisions with regard to investments» [6]

This type of guidance constitutes the most important aspect of indicative plans Naturally, the usefulness of the plan from this point of view depends on the nature and quality of the information regarding the sectors and subsectors of the economy, as well as on the ability of entrepreneurs to evaluate and make use of this information. In our opinion, the Plan has been very useful from this point of view.

b. Protection — The Plan provides for the protection, from foreign competition, of the economy as a whole, and of certain sectors and industries in particular Reference is made in the Plan to the need for a «moderately high **ad valorem** general protection .. in order to overcome the disadvantage of being an underdeveloped country trading with advanced countries», as well as to the necessity of «selective measures. needed to protect and promote certain new industries».[7]

The Plan considers customs duties, quotas and other protective measures as complementary instruments to be applied selectively «In addition to a selective system of protection, a selective policy of tariff reductions may also have to be applied to curb rising trends in internal cost structures »[8]

Beyond this general statement of principle, however, the policy measures provided in the Plan show heavy reliance on import quotas as the principle instrument of protection. «Goods of which internal production is quantitatively and qualitatively sufficient to meet internal requirements at fair prices should not be included in import lists »[9] Where domestic production partly meets internal demand, «quotas will be issued in relation to their importance for the economy The import requirements of the industries concerned will be examined and fulfilled in the light of their implications for the Plan.»[10]

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6 **Ibid.**, p 443
7 **Ibid.**, p 470
8 **Ibid.**
9 **Ibid.**
10 **Ibid.**

The Plan endorsed the existing quota system not only as an instrument of protection, but also as the principle means of saving foreign exchange. In fact, the foreign exchange problem seems to have been foremost in the minds of the planners, not only in determining foreign trade policies, but also in establishing the priorities and in formulating the criteria for project appraisal. Whatever may be the quality of the design, endorsement of the quota system in the Plan assured continued and, in many cases, unqualified support to new industries substituting for imports throughout the Plan period

c. **Financial Policies.** — The Plan recognized the need for measures to increase the availability of investible funds to the private sector. To mobilize private savings, the development of a capital market would be encouraged and financial support would be provided for productive investments by various specialized credit institutions.

As for the development of a capital market, the Plan does not mention any specific measures, beyond suggesting that «the formation of joint-stock companies will be encouraged, a certified public accounting system will be set up, and the commercial code and tax system will be reviewed and revised.»[11] The working out of the specific policy recommendations was, in fact, left to a study group of experts.

On the question of credit, the Plan makes reference to the heavy reliance of the private sector on short-term credit for financing long-term needs, and to the difficulties in obtaining medium and long-term finance. The measures suggested are mostly institutional· new financial institutions are to be set up, and some of the existing institutions are to be reorganized

Among the new financial institutions, a bank to provide medium-term credits to industry, and another to finance mining investments, are mentioned. The Agricultural Bank, the Tourism Bank, and the People's Bank — which finances artisans and small industry — are to be reorganized so that they can carry out their specialized functions more effectively The resources of the Industrial Development Bank are to be augmented. In other words, the private sector will have a whole set of specialized credit institutions, which will provide financial support for activities indicated in the Plan.

d. **Fiscal Measures.** — The discussion of the problem of fiscal reform raised by the Plan lies outside the scope of this paper. The

11 Ibid., p. 446

fiscal measures proposed by the Plan, and designed to influence the directions of growth in the private sector, were: (1) heavier taxation of buildings, (2) accelerated depreciation, and (3) investment allowances for favoured fields.

The Plan proposed a revision of the building tax to render the construction of dwellings economically less attractive; more resources would then be available for investment in directly productive activities.

The Plan accepts the principle of accelerated depreciation in income tax. As for investment allowances, it is stated that this device will be applied in such a way as to «encourage savings and channel investments into the desired fields», and that «more favourable conditions will be applied to investments in specified fields in certain less developed regions.»[12]

These measures were further elaborated after the Plan was published, and a system of accelerated depreciation and investment allowances was adopted in 1963.

Further fiscal measures to encourage investments in desired areas were introduced later, authorizing the Council of Ministers to reduce import taxes on investment goods and raw materials, for certain projects or industries, subject to the approval of the State Planning Organization. The same Law permitted installment-payment of import taxes on investment goods Finally, the Plan provided for the encouragement of exports of industrial goods by refunding to the exporter all indirect taxes entering into the cost of production.

When we review the Plan from the point of view of economic policy measures, we observe that most statements of policy remain at a level of generality which renders it difficult to make an evaluation of their operational significance or effectiveness However, the Plan indicates the principles of guidance and the policy instruments which could be used to influence the directions of growth in the private sector. The elaboration of the policies and the formulation of specific measures are left, in most cases, to Annual Programs.

3. Rules of the Mixed Economy

The first rule of the mixed economy is equality of competitive conditions between private and public enterprise. «The basic principle followed in economic policy is to lay down common and clearly

12 Ibid., p. 438.

specified conditions for all enterprises engaged in economic activity».[13]

In product markets, there will be full and free competition between private and public enterprise; just like private firms, State Economic Enterprises will follow a price policy designed to yield maximum profits, except in cases where a certain group of consumers is protected for social or economic reasons Here, the price mechanism is allowed to play its full role

Where allocation of a scarce resource, such as foreign exchange, is concerned (and the Plan foresees the continuation of extensive, direct controls on imports), the criteria will be the «requirements of sectors», there being no discrimination between private and public enterprises in this respect either.

The rules of competition between the private and the public sector for capital funds are less clearly stated In places, the Plan provides for policies designed to develop a free market for capital funds. In the section on credit policy (cf. p. 452), under the heading «Optimum allocation of credits within the economy will be secured», it is stated that : «Interest rates on the various kinds of credit will be as close as possible to the economic interest rate. To achieve this, official restrictions on interest rates should be gradually relaxed as the economy develops during the plan period, and finally abolished. In principle, the rate of interest charged on similar types of credit will be the same in all branches of activity» (i.e. for public and private enterprise) On the other hand, in the same section it is stated that while the private sector will obtain funds from the capital market and financial institutions, «public enterprises will secure the working capital and investment credits they need urgently from special funds to be appropriated»

Thus the Plan does not provide for full and free competition for capital funds between the public and the private sector. Allocation of investible funds and, as stated in the section on «Competition between private and public enterprises» (cf p. 56), interest rates and terms, and the incentives to be provided for the repayment of interest and capital, will be determined by sectors and in accordance with the plan targets». This implies that there will be no discrimination in this respect between the private and the public sectors.

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13 Ibid., p. 56

II. THE PRIVATE SECTOR PERFORMANCE UNDER THE PLAN

So far we have considered the role assigned by the Plan to the private sector, and the policies designed to guide its activities. A proper evaluation of Turkish planning would require a review of implementation as well as of actual performance under the Plan.

It is, in our opinion, too early to make a proper appraisal of the response of the private sector to planning Most of the measures of encouragement — such as tax incentives — were taken after the second year of the Plan and will produce results, if any, only in the longer period.

What is more, the statistical data regarding the activities of the private sector is not adequate for such an evaluation. Certain basic information, such as the breakdown of investments by sectors of the economy, is not available, except for the manufacturing industry.

Nevertheless, the review of the economy in the Annual Program for 1966 and the results of the investment survey for the manufacturing industry give an approximate idea on the performance of the private sector in the first two years of the Plan

A comparison of targets and realized investments for the private and the public sectors is shown in the table below :

TABLE 2

TARGETS AND ACTUAL INVESTMENTS FOR THE PUBLIC AND PRIVATE SECTORS, 1963 and 1964

	1963		1964	
Sector	Target	Actual	Target	Actual
Public	5 62	5 14	6 85	5 66
Private	4 20	5 00	4 50	4.85
Total	**9 82**	**10.14**	**11.35**	**10.51**

Source : 1966 Annual Program, p 15.

The private sector has done quite well, in fact better than the public sector, as far as total investment volume is concerned. Private investment has exceeded the targets in both years.

This certainly seems very satisfactory. However, from an operational point of view, the fact that the private sector has exceeded the Plan targets is not significant in itself. One might just as well

argue that the planners underestimated the investment potential in the private sector Thus, what is more important is the conformity of the pattern of private investment to the Plan. This is particularly so where the policy measures are designed to influence the pattern of private investment rather than to raise its total volume. It might be added that the opposite is true for the public sector, where the pattern of investment automatically conforms to the Plan but a lag in total investment volume may result in serious deviations from Plan objectives.

The investment figures given above include construction of dwellings. Private investment in dwellings in the first two years of the Plan, as compared to Plan projections, is given below :

TABLE 3

INVESTMENT IN DWELLINGS, 1963 and 1964

In million TL. at 1961 prices

Sector	1963		1964	
	Target	Actual	Target	Actual
Public	343 8	274.8	222.2	183.6
Private	1756.9	2024.4	1915 7	1896 9
Total	2100.9	2299.2	2137.9	2080 5

Source : 1966 Annual Program, p 532.

Private investment in dwellings exceeded Plan projections by 15.6 per cent in 1963, and while 1964 investments have been very close to the Plan estimates; building permits issued in 1965 show that construction activity is continuing at a faster rate than foreseen in the Plan.

Thus, although the rates for building tax have been revised, and loans from the Real Estate Credit Bank have been limited to the construction of utility housing, the required change in the composition of private investment — away from housing to directly productive activities — did not take place to the extent envisaged in the Plan.

Further tax increases would probably be required to discourage housebuilding. Even then, it is not at all certain that more resources would be available for investment in productive fields. The idea of possessing a house provides a strong incentive to saving in Turkey, and people are not used to investing in stocks and bonds. Policies

to encourage the development of a capital market may be more effective, in the long run, than tax policies designed to discourage buildings.

Private investment targets by sectors of the economy are announced each year in Annual Programs Although statistical data concerning actual investments in different sectors are not available, the results of an annual investment survey in the manufacturing industry provide valuable information on the directions of growth in the private sector The following table shows actual investments in the manufacturing industry as compared to program targets, in the first two years of the Plan.

TABLE 4

PRIVATE INVESTMENT IN THE MANUFACTURING INDUSTRY,
(Total for 1963 and 1964)

In million TL.

Investment in	Programmed (1963+1964)	Actual (1963+1964)	% Ratio of Actual/Programmed
Consumption goods	299 2	650 8	217
Intermediary goods	1930 8	1989 4	103
Investment goods	531 0	302 4	57
Total	**2761.0**	**2942.6**	**107**

Source : 1966 Annual Program, pp. 174 - 177.

As can be seen, actual investments of the private sector in the manufacturing industry have exceeded Program targets by 7 per cent in the first two years. The distribution of investments between sectors, however, has not conformed to the Plan. Investments in consumption goods industries (mainly textiles and food) have been far in excess of Program targets, while those in investment goods (machinery and equipment) have fallen short of expectations. In other words, the private sector continued to invest in traditional industries, rather than take risks in new fields.

However, this is evidently not the last word that can be said on the subject, for a proper evaluation of the performance of the private sector would require a **reappraisal of the targets of the Plan,** in the light of information on actual consumption, prices, and capacity utilization in specific industries. Thus, for instance, the Plan might well have underestimated the demand for textiles, and/or overestimated the demand for steel, in this case, deviations from Plan

targets would have no significance in assessing the performance of the private sector **per se.** Where the Plan requires a change in the pattern of consumption or investments, performance should be judged as a function of the policy instruments used to bring about the desired change.

A system of tax incentives was adopted in Turkey, whereby investors in favoured fields took advantage of preferential rates — and of terms of payment — for import taxes on investments goods, as well as of tax relief for profits to be derived from specified investments. The Annual Programs contain a list of industries which can benefit from the investment allowance. We have elsewhere expressed our doubts about the effectiveness of the investment allowance system introduced in Turkey.[11] At present there is not enough evidence to judge whether these measures will, in fact, influence the directions of investment in industry.

III. REACTIONS TO THE PLAN AND CONCLUDING REMARKS

Reactions to the First Five-Year Plan were on the whole quite favourable: it was received with enthusiasm by the progressive elements in the Turkish society. Generally speaking, it had the approval of the press, of the university, and of government circles, while reception was less enthusiastic in certain conservative circles where the Plan was considered as a blueprint for a «socialist society».

As a matter of fact, discussions on the political implications of the Plan, and of planning in general, occupied public opinion for a considerable period of time The discussions were mainly focused on the reforms proposed in the Plan. The private sector took a firm stand against the tax reform, and the land reform measures proposed by the planners were not very popular among politicians. In fact, the question of reforms produced a conflict between the planners and the government, resulting in a revision of the measures proposed in the final draft of the Plan just before it was brought to the Parliament, and in the subsequent resignation of the Undersecretary and Department Heads of the State Planning Organization.

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14 İ. Öngüt, **Guidance to the Private Sector in a Planned Mixed Economy — Turkish Experience,** paper submitted to the Seminar on Planning and Growth under a Mixed Economy, The Conference Board, Istanbul, 1966.

The private sector was generally quite concerned about the role attributed to it in the Plan The more enlightened and progressive elements in the business community appreciated the benefits to be derived from planned development, and gave full support to the Plan. Others thought that planning would result in a diminution of the role and position of the private sector. It was argued that the Plan gave undue emphasis to the public sector by holding it responsible for 60 per cent of total investments and foresaw its expansion at the expense of the private sector.

This last argument is not supported by the facts. Comparison of total investment figures is not very meaningful for evaluating the respective roles of the private and the public sectors in the Plan, since these figures include investment in the construction of dwellings in the private sector, and public utility and infrastructure investments in the public sector.

We should, in fact, compare private investment excluding dwellings with public investments in directly productive activities. The latter roughly corresponds to the investments of the State Economic Enterprises. Since in the Five-Year Plan itself there is no institutional breakdown of public investments, we shall give below the investment targets in the Annual Programs, for the first and the fourth years of the Plan.

TABLE 5

INVESTMENT TARGETS, 1963 and 1966

Type of Investment	1963 (a)		1966 (b)	
	Billion TL.	% Distribution	Billion TL.	% Distribution
Public Investments	5 76	59	8 75	60
General Administration	3 81	39	5 80	40
State Economic Enterpr	1 95	20	2 95	20
Private Investments	3 87	41	5.75	40
Construct of Dwellings	1 76	18	2.30	16
Productive Investments	2 11	23	3 45	24
Total	**9.63**	**100**	**14.50**	**100**

(a) 1961 prices
(b) 1964 prices

Source : 1966 Annual Program, p 669.

Another argument which one often hears repeated, is that the private sector was not consulted in the preparation of the Plan and Annual Programs. This argument is not always clear. There are two

ways in which the private sector can play an active role in the planning process. In the first place, it can, as any other pressure group, try to influence the political organs that set the targets and the strategy of the Plan There are proper channels through which this can be done in any democratic society. Secondly, the private sector may participate in the technical work on those sectors of the economy where it is active and where its knowledge and experience can make an important contribution to the Plan.

It is true that, although representatives of the private sector participated in the work of some of the Specialized Commissions responsible for surveying and planning specific sectors or industries, the State Planning Organization did not make full use of the opportunity for such cooperation during the first Plan Most of the sector studies were made by the staff of the State Planning Organization and submitted later to the private sector for comment. However, this situation has been remedied in the preparations for the Second Five-Year Plan, and the private sector is fully represented in the committees now working on sectors or industries.

The Plan has also been criticized by the private sector for not setting specific targets for public investments Had the Plan given the sectoral breakdown of public investments, it has been said, the private sector would have had the assurance that it would not face competition from public enterprises in given sectors and industries. This would have acted as an incentive to the private sector in reaching its own investment targets.

A somewhat similar criticism of the Plan is to be found in an OECD Economic Survey :

> «Although the annual investment programmes will contain specific projections by sectors of public investment, the absence of such projections from the Five-Year Plan should not be considered as a point of technical detail. It seems that the Turkish authorities did not wish to appear as setting specific targets for private investment, because the general policy of the Plan is to encourage the maximum development of private initiative. This, however, could have been achieved by giving a central place in the Plan to estimates of public investment in the various sectors and deleting altogether the estimates of total investment by sectors The former constitutes, in any development plan for a mixed economy, an important strategic variable under the control of the government On the other hand, projections of total investment for a given sector include

an elusive element of private investment and are of very limited operational significance,»[15]

This may be an alternative approach to planning in a mixed economy. It is not an alternative, however, which is consistent with the strategy of Turkish planning, where the aim is to achieve a given growth rate. It is evident that targets had to be set for **total** investment by sectors of the economy in order to attain this objective In fact, it was because «projections of total investment include an elusive element of private investment», that the Plan did not set specific targets for public investment and gave public enterprises the responsibility of assuring the realization of critical sector targets by adjusting their investment programs accordingly.

There were critics, on the other hand, who argued that this system, with its too liberal attitude towards the private sector, was wasteful and delayed progress towards Plan objectives Private investments did not conform to the Plan, and indirect controls were not adequate. A system of investment licensing should therefore be introduced to bring the private sector under the discipline of the Plan.

Before announcing the failure of the system of **guidance to the private sector by indirect controls and incentives,** an evaluation should be made of actual performance under this system, in terms of (1) the nature and degree of specific divergences from Plan targets, (2) the significance of such divergences from the point of view of delaying progress towards the major objectives of the Plan, and (3) the effectiveness of the indirect controls and incentives actually employed After evaluating the existing system, we must think about the ways in which we can improve it This is a matter of selecting the right policy instruments. Good licensing is difficult, and we must be reasonably certain that no improvements to the system of guidance by indirect methods can be as effective as licensing, before we consider adopting it

There are policy questions in Turkish planning — savings policy, taxation policy, industrialization and foreign trade policy — which require reconsideration There are unresolved problems in the rules of the mixed economy, especially where competition for capital funds is concerned Such questions are central to any development effort. They are not, however, questions which can be resolved with the first attempt at development planning.

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15 **Turkey,** Country Report, O E C D, Paris, May 1963.

X

ON CERTAIN ASPECTS OF THE SOCIAL PLANNING OF THE FIRST FIVE-YEAR PLAN

by
M B. KIRAY *

INTRODUCTION

It is clear, in retrospect, that social planning came to Turkey at a time when no appreciably sophisticated cognition of social problems, social change, or social relationships had ever been elaborated in the country. The economic and political happenings of the 1958 - 61 era brought along their own enquiries and, to a certain extent, their own solutions to social problems. The social planning of the early nineteen-sixties in Turkey marks the official as well as public recognition of the necessity of sociological investigation, of social problems, and of the devising of objective (although not necessarily orthodox) solution-finding, as a legitimate and indispensable part of «the development effort» of the country Until then, it is rather difficult to point to any empirical research directed at discovering any appreciably important social relationships Since that date however, it has been a pleasure to observe the deep concern shown in different governmental and academic circles, as well as in the public, about social change, its problems and their solution. Even as far as its academic circles are concerned, Turkey owes to the First Five-Year Plan and to the questions it formulated, whatever consciousness she has of the importance of solving her social problems.

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Thus, being fully aware of the significance of the Plan efforts in this respect, we would like to discuss here the content, the scope the approach and, to a lesser extent, the methodology of the First Five-Year Development Plan in treating the problems of social development

It would seem that, in the First Five-Year Plan, all aspects of planning not included in economic planning constitute what may be called social planning, although it is difficult to see the basic principles implied by the totality of these aspects. A review of the table of contents of the Plan may give a clearer idea in this connection. Section III of the Plan entitled «The Basic Organization of the Society»[1] contains the following subjects in the following order : The Population Problem, Structure of the Mixed Economy, Reorganization of Public Administration, Reorganization of the State Economic Enterprises, Community Development, Labour and Labour Problems, Social Security, Credit Institutions

Sections IV to VI are all devoted to the problems of the various economic sectors and their development. The last part of the sector development plans is devoted to services — public services as well as tourism and housing. Manpower, employment and education occupy a separate section (Section VIII).[2]

Obviously there is here a mixture of social and economic problems without any visible order of importance or any other clear relationships among them Furthermore, there is no general explanation of why these particular topics are made the subject of planning, and no others. The subdivisions also reflect this arbitrariness; thus the topics taken up under the heading of **public services** vary from health and the provision of drinking water to administrative buildings and municipal services.

It seems to us that these subjects may be grouped in three categories, regardless of their multiplicity of appellations and the places they occupy in the Plan

The first category covers those subjects which are traditionally part of economic planning. These occupy a large place and they are approached with the finer methods proper to economic analysis. Population, education, manpower, and employment are among these subjects

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1 **First Five-Year Development Plan, 1963 - 1967,** Republic of Turkey, Prime Ministry, State Planning Organization, Ankara 1963 pp. 59 - 107

2 **Ibid**, p 395

The second category of subjects, which we shall call governmental ones, are very rarely included in national plans. In the Five-Year Plan, however, they not only are included, but also display great variety, ranging from administrative reorganization — a basic reform — to providing administrative buildings — a simple budgetary matter. Also included, rather irrelevantly, are several development projects such as drinking-water supply, cadastral surveys, etc. This agglomeration of topics gives one the impression that the Annual Financial Budget must have served as guide to the planners. On the other hand, the all-inclusive and fragmentary appearance of this second category reveals a preoccupation with government and public administration which might possibly be explained by the public administration and political sciences background of the planning technicians of the time, and the resulting importance attached to governmental and administrative decisions as the main incentives to change.

The third category includes such subjects as social welfare services, social security, community development, and labour relations. In the developed countries, problems such as housing, social welfare and labor relations have been related to the difficulties encountered in the course of industrialization, and the efforts to solve them have never taken the form of attempts for structural change in the society at large. Rather, these efforts have been oriented towards providing the adjustment of the single individual to his problems. Moreover, together with health, these have always been understood as the main and only aspect of social planning.[3] The impact of this interpretation is felt in various ways in the social planning efforts of underdeveloped countries like Turkey, which should aim for structural change, rather than personal adjustment for the individual, if development is their aim This impact is most visible in the rural development plans and manifests itself in the form of community development projects, where determining «needs» and providing adjustment for each village — without being interested in bringing about any socio-economic changes — is the main target Nevertheless, since the subjects falling into this third category are in fact directly related to the process of modernization

3 Higgins, B, **Planning of Social Development**, mimeographed paper submitted to the Institute of National Planning, United Arab Republic, 1963, p 18, and United Nations, **Problems of Social Development Planning**, Development Programming Techniques Series No 4, New York, 1964, p 50 This latter report explaines the difficulty met in defining the term «social welfare», as the experience of the developed countries has only limited use for the underdeveloped countries

and industrialization — i.e to structural change — they deserve, in our opinion, special attention.

Before starting to discuss more analytically the last two of these three main categories of social planning activity distinguished above, some points common to all three groups should be stressed with a view to placing the entire planning effort in a clearer perspective.

The Plan itself sets out with a clear and justified statement that social development means essentially a transformation of the social structure, and further states that «the effect of the development rate upon the social structure and the changes that should be made in this structure to realize the desired growth rate are considered together».[4] It is a fact, however, that the Plan fails to differentiate between the two concepts, and there is no clear indication or analysis of the reciprocal relationships between a change in social structure and the rate of economic development This leads to a neglect of the necessary emphasis on those aspects of planning which are really indispensable for bringing about structural change, and to a failure in setting specific aims in terms of the new structure envisaged. In all the major areas of social planning, the targets are set only in quantitative terms, with no qualitative or structural indications The means and the time intervals necessary to reach the projected aims, and the coordination of these aims with other economic objectives, are never clealy shown

This is due not only to the fact that the Plan contains no clear statament about the different levles of social structural change to be reached at specific periods, expressed in terms of aims and targets, but also to the method and techniques used to project and assess these aims themselves; in fact, the method used is simply one of trial and error, except in manpower-education, with a considerable amount of supplementary guesswork. There is, of course, no valid reason why any one of the social sectors should not be made the subject of the same type of analysis as that used in manpower studies or economic models with the use of matricial techniques and/or a cost-benefit analysis

As has been observed earlier in this paper, however, the Plan effort was the first relatively sophisticated inquiry into social phenomena in this country, thus, one can perhaps excuse the use of such a simple methodology as being unavoidable. Also, as this shortcoming is shared by most social planning efforts of our day, we hope that the need for more precise planning will stimulate planners, as

4 The First Five-Year Development Plan, 1963 - 1967 op. cit., p. 59

well as social scientists, to accept the challenge to develop more adequate techniques for the study of social and economic phenomena in their mutual interdependence, with a view to increasing the efficiency of planning tools and also enriching our reliable knowledge. Even without precise mathematical analyses, however, the existing state of knowledge in sociology is sufficiently advanced for the identification of structural change and the factors affecting this change, and for suggesting better methods of effective planning as well as the steps to be taken for successful implementation.

In the analysis below we shall not concern ourselves with those social planning subjects that are not included in the First Five-Year Plan Thus, while urbanization is the major social process in the development of a country like Turkey (and requires extensive treatment of such subjects as the migration of the population, settlement problems, industrialization, and expansion of organizational life, as well as the modernization of agriculture), it will be left out of the following account, since in the Plan there is no reference to it apart from an isolated treatment of the housing problem.

Another group of subjects we shall not deal with are employment, manpower, and education. As we have already pointed out, these are usually considered to fall within the domain of economic planning, since they constitute one of the three major variables of economic analysis and are thus treated with considerably more sophistication, and in close connection with economic change.[5] Consequently, we shall concentrate here on administration and administrative services, community development, and social welfare policies

I. ADMINISTRATION AND ADMINISTRATIVE SERVICES

As has been mentioned before, a considerable amount of attention and space is devoted in the First Five-Year Plan to the planning of public administration and of the public services performed by

5 For various discussions of manpower-education planning, see among others

Parnes, H S **Forecasting Educational Needs for Economic and Social Development.** OECD The Mediterranean Regional Project OECD publications, October 1962

United Nations **Problems of Social Development Planning,** Development Programming Techniques Series No 4, New York, 1964, Chapter I

Zabelin N N **The Methods of Developing the Balance of Labor Resources of a Country for long-range Period** (According to the U S S R Experience), mimeographed paper read at the Regional Seminar on Problems of Planning the Labour Force, held in Cairo, March 1963

Balogh, T **Education and Economic Growth** (Comments on Professor Tinbergen's Planning «Model»), **Kyklos,** Volume XVII, 1964, pp. 261-272, and Tinbergen, J **Reply to Balogh's Article, Kyklos,** Vol. XVII, 1964, pp 274-275

governmental agencies. In fact, the Turkish Plan is one of the very few which include a full public administration reform. It envisages a complete reorganization of the Administration, and a new personnel policy. Moreoever, considerable action has already been undertaken Studies leading to diverse recommendations have been completed and some new offices have already been organized to apply the decisions On the other hand in addition to the usual education, health and communication services, a large variety of other public services performed by governmental agencies are included in the Plan; here, it was found necessary to first construct an index in order to establish the different beneficiary regions in the country. Thus it may safely be assumed that public administration and its services constitute an aspect of social planning to which the greatest attention has been paid.

There is indeed no doubt that planning and administration are very closely associated processes. Planning being a governmental function, its proper implementation requires effective control and coordination of the public administration However, one has to be aware of the paradoxical character of the relationships between administrative decisions and services On the one hand, the development of modern social structures burdens administrative services with more and more new essential duties and responsibilities, while on the other hand, various conditions result in situations where administrative decisions cannot be applied and services cannot be performed. Due to the inertia of the system, the Administration keeps making decisions and feels that it has done its duty, without paying much attention to whether these decisions would be applicable or effective

The administrative decisions related to planning are even more prone to such discrepancies If the existing social structure is not ready to include them in its functionally integrated body, decisions will remain inapplicable. One can readily predict, for instance, that this will be the fate of the statement about «making services available to larger communities», thus requiring smaller communities to be joined with bigger ones.[6] The size of communities is a function of their production capacities and transportation facilities Without increasing production and transportation facilities to the level that will actually bring communities closer, no government decision can hold them together

Again, for instance, as can be seen from the index constructed in the Plan, the Eastern part of the country receives considerably

6 The First Five-Year Development Plan, 1963 - 1967, op. cit., p 59.

less public service. To interpret this as simply a result of the negligence of the administrative authorities of earlier periods is to miss half the determinants of the situation, for services are not only not given, but usually not taken either. Thus, the solution must obviously include not only **bringing** services to the area, but also (and simultaneously) carrying out programs for **changing the receptivity** of the area. Otherwise, many decisions will remain on paper and make of the Administration a disfunctional body.

Another very frequent failure characteristic of all types of planning decisions for public administration services, is that of ignoring the resistance of vested interest groups. Thus, even a simple technical matter such as mapping and land cadastre, for example, which seems to be only a problem of physical facilities and finance, presents difficulties of application in countries like Turkey, with a powerful class of large land-owners, and frequent land disputes.[7]

Usually, such decisions are bound to remain on paper; moreover, they puzzle the observer and lead to loose interpretations to the effect that «our type of society is fatalistic», and that «our administrative bodies are interested in 'words' and not in action» — interpretations totally ignoring the coercive forces of the social structure and of the power equilibrium What happens is that, when effective governmental decisions cannot be taken to bring about general reforms, any action that is taken is concentrated in areas where the social structure and power mechanism will not show any resistance Clearly, the chances are much greater for this last type of decision to become disfunctional, since no significant changes can be realized in this manner

It seems that there is no real resistance to the integration of services constituting the **infra-structure of social change,** such as roads, schools, drinking water supplies, etc All further decision, however, should always be taken on a differential basis for the various regions, according to the degree of change in the social structure of the region Obviously, great efforts will have to be made first, to know more not only about the administrative body but also about the social structure at large, and to evolve a methodology that will permit the observation of interdependences Then, and only then, can decisions be made that will **not** remain on paper. These are

7 In the Çukurova region of Turkey, where the distribution of land is very uneven, for instance mapping and land cadastre are completed in small landownership areas, whereas they are conspicuously lacking on the large «domaines»

the **minimum requirements** for correct action today, since the contact points of the Administration and the rest of society have evolved on to a much more complicated matrix than the simple «tax collection and military service» one, which existed in earlier eras.

II. SOME SUPPLEMENTARY ASPECTS OF SOCIAL PLANNING: COMMUNITY DEVELOPMENT AND SOCIAL SECURITY SERVICES.

1. Community Development

The Plan contains a chapter under the title of Community Development, subtitled «Village Development» In a document dealing with the social problems of an underdeveloped country, where one of the basic problems of social development could be summarized as the structural change in rural society from the self-sufficient, relatively isolated village life to the modernized, urban-integrated agricultural one, one would expect an articulated, explicit formulation of a series of conscious interventions in the rural community, with a view to bringing about this change. As a matter of fact, the section dealing with the main principles and methods of Community Development defines «social development» correctly, as «an action to change social structure and value systems in accordance with development».[8] Except for this definition, however, the Community Development program is far from being convincing as a document outlining the main principles of dealing adequately with such a transformation. The main shortcoming of the program is that it does not discuss structural change in the rural social environment analytically: It neither points out specific problem areas and necessary actions, nor their estimated costs and expected results.

Generally speaking, the «Community Development» program of the Plan does not see and handle the changes in the village as an integral part of the socio-economic changes to take place in the country as a whole Neither is there any awareness of the fact that villages are at different levels of development with different problems of integration in the socio-economic life of the country, and that consequently they require different action programs in differential time perspectives Further, the program considers every village community as an undifferentiated group, with all the members possessing similar or identical interests in the changes to be brought into the community — an approach which is not at all consistent with reality. Finally, the agencies proposed to introduce

8 The First Five-Year Development Plan, 1963 - 1967, op. cit.. p. 92.

the envisaged structural changes are the very same agencies working in the community today. It is far from certain that the leaders of the existing social structure will necessarily be interested in either the knowledge or the bringing about of a new one. Much of the phrasing in the Plan suggests that Community Development is to be understood as an effort at bringing about better adjustment, and at making better use of the existing conditions, without any major structural changes The problems dealt with all concern marginal adjustments, such as better living conditions in the houses, or meeting ordinary local needs by organizing a common effort in the community, or even simply achieving more effective coordination among the various services provided by governmental agencies. Great emphasis is also placed on «promoting correct values»[9] among the members of the community, and securing their participation, on a voluntary basis, in the performance of services.[10] The two assumptions underlying this policy — namely that the villages have problems because the peasants do not want to solve them and that the reason for their reluctance is an «incorrect» set of values — are partly the result of the superficial interpretations provided by economists and political scientists whenever they run into difficulty in their sociological «explanations», and partly a reflection of the general Western approach to social planning, where solutions are sought not in structural changes, but in marginal adjustment mechanisms providing short-term remedies to the individual, as for instance in the case of social welfare services. When this is the situation, the place of Community Development in a national Plan becomes rather dubious. If the program measures are intended as the means of achieving more fundamental changes in the rural-agricultural social organization of the country, then the effort — as it is formulated in the Plan — is a seriously inadequate one. If on the other hand, the objectives do not really involve anything more than what is implied by the coordination and better functioning of the existing mechanism, with the collaboration of the peasants, then they cannot be very significant for economic and social development Since the Plan fails to mention any specific targets concerning fundamental change, or to formulate the differential measures and organizations that would be required to keep track of the intra-village and inter-village exigencies of such targets, it would seem that the program in the Plan is really a policy of the latter type.

9 Idem.

10 Similar phraseology is used in every sub-section of the chapter entitled «Community Development»; cf., for instance, pp. 92, 94, 95, and 96.

Finally, it should be remarked that the program does not even trace the interdependences between the various elements of the social changes envisaged. From an analytical point of view, the present problems of Turkey in relation to rural development could be grouped under four main headings:

a) Population pressures;

b) Problems relating to changes and increases in cash cropping in agricultural production;

c) Problems related to rural settlement sizes and patterns (these are mainly questions of change in transportation, communication and technology); and

d) The degree of specialization, differentiation and the consequent types and degrees of organization.

Although all of these, except the fourth point, are mentioned in the Community Development program of the Plan, they are scattered at different places For example the population problem is mentioned as a point among the basic principles[11], while the settlement policy, envisaged only in the form of a possible governmental decision, is among the targets[12]. As for the fourth group of problems which really deal with social planning after the economic structure has become a market-oriented, urban-integrated production system, it is not envisaged at any level. It is clear that with such a dispersed treatment of the different points, many of the interdependences are certain to be missed, whereas the four points mentioned above are, in fact, the different aspects of a single structural change process, and thus are all closely interrelated. A program keeping track of these interrelations, as well as of the inter-village and intra-village differentiations mentioned earlier, would certainly yield a better, more satisfactory rural social development design.

1. Social Security and Social Welfare Services

Before starting to discuss the role of Social Security and Social Welfare Services in the First Five-Year Plan, we wish to point out certain basic characteristics of these services, which for some reason never seem to receive sufficient attention It had already been stressed earlier that both the development plans of underdeveloped countries, and the literature on these plans, are singularly lacking in any description of social security and social welfare measures,

11 Ibid., p. 92.
12 Ibid., p. 95.

not to mention an analysis of the role of these institutions in society.

The problem of social security occupies a central position in relatively slow social change processes Every social structure, within its integrated structure of institutions, interaction patterns and values, provides its members with a mechanism of security. The pre-industrial society with its smaller communities, family-centered activities, face-to-face relations, and its limited fluidity and mobility, is well equipped to provide the security needed The rights and responsibilities between father and son, the reciprocal duties of the landlord and share-cropper, or the guild and its customers, are determined in such a manner that everybody knows what to do in ordinary as well as in exceptional times and situations The system is so closely knit that usually the individual member is not even aware that the group, and the interaction patterns among its members, are providing him with a well-rounded system of security. In fact, it is only after some changes have taken place and new interaction patterns have emerged that the members of the group become aware of something important missing in the new situation. In many ways this «lack of something» appears as a bottleneck where development, both economic and social, meets with obstacles.

Delays in the emergence of a new and adequate security mechanism, and/or in its integration in the newly changing structure, may effect social development in many ways. For example, they may stop the free movement and flow of the population from one sector (agriculture) to another (industry or services), and thus keep the individual from becoming integrated in either the rural or the urban social environments. What prevents the changing group from trying new ways or moving freely is not its «fatalism» but its insecurity **in general.** Thus, when peasants come to the city to become waged industrial workers, for example, they generally do not bring their families and refrain from selling their small plots of land. Indeed, the reason behind the well-known difficulty of creating a really urbanized skilled labour force seems to be simply the lack of security of the newly coming worker, resulting from slow economic development and the non-existence of a social security system[13]; the only thing he seems to be able to do under the circum-

13 During a study we conducted in the Çukurova region in four villages — all at different levels of technological development, and in all of which cityward migration was very conspicuous — it was observed that almost everybody wished to move to the city but that strictly nobody thought of selling his land The reasons they gave pertained to security

stances is to keep his land so that, if and when everything fails, he may return there. In the meantime, of course, his efforts and interests are divided between doing his job in the city and tilling the land in the village, and thus neither of these tasks is performed properly.

On the other hand, in their efforts to adjust their production forms and their ways of life to changing conditions, small peasants and small artisans generally become vulnerable to the only agent in their environment which functions as a possible contact point with the outside and acts as a security-providing institution. Indeed, close observation reveals that large landowners and small-town merchant-moneylenders can go on with their activities and retain their immense powers as long as they also function as social security providing agencies.[14]

Another way in which lack of social security influences socio-economic change is that much of the savings of small traders and businessmen, as well as other middle classes in urban centers, are channelled to construction, with the consideration that there will at least be the rent income to «fall back on» in case of need. Thus, relative over-investment in construction also appears to be an immediate result of a lack of organized social security services.

These points raised above, all go to show that a too slow evolution of security mechanisms is a real obstacle to a transformation of the pre-industrial socio-economic structure into a modern urban-industrial one What is more, the new adjustment mechanisms emerging under the pressure of social change may actually create such intermediate institutions and relationships as will increase the difficulties of the transition to the modern structure, rather than reduce them One consequence of this may be a much greater complexity and difficulty in securing the necessary decision-making, as well as much higher costs in future planning

From this point of view, it is our opinion that, rather than thinking of each measure in isolation from the rest, many social services could be brought together, and a properly differentiated social security system, capable of meeting the various degrees and types of security needs including emergencies, of the modern social structure, could be created. In fact, many of the public services operating in Turkey today constitute the various aspects of the social security system in general. Thus, workers' insurance, retirement

14 For a detailed analysis of this relationship, cf Mübeccel Kıray, **Ereğli, Ağır Sanayiden Önce bir Sahil Kasabası**, (Publications of State Planning Organization, Ankara, 1964), Chapter V

programs, and all the health services, as well as social welfare, might be reorganized as elements of a social security system.

As for **social welfare services,** in the West they traditionally occupy a very conspicuous place and are almost synonymous with social planning itself — an attitude which has led to similar approaches in the social plans of underdeveloped countries, with undesirable results The history of social welfare services in the West shows that originally they evolved at random, through the efforts of individuals or private organizations, to combat the disorganization caused by industrialization and urbanization; systematic government participation came much later. The people who benefit are generally the extreme cases such as the socially, physically and mentally handicapped, who can no longer survive in the urban industrial environment without organized assistance. In fact, with the exception of some very old ones, the social welfare services in Turkey are very slow to develop, due to the fact that when and where the family and neighbours' face-to-face relations and rights and duties take care of such cases — and even insist on not leaving them to other agencies — externally provided services remain disfunctional It is illusory, in our opinion, to provide these services without keeping track of the system of the industrialization and urbanization processes and of the group interrelations dependent on them, for otherwise they are destined to remain ineffective. Thus, the independent and major place occupied by social welfare services in most plans is really misleading, for these services are not oriented towards bringing about structural changes; nor are they significant in terms of the numbers of beneficiaries. When this is the case (as it often is), the social plan presents a fragmentary, unsystematic and pseudo-philanthropic picture, about which neither specified aims nor predictions can be asserted, and appears as a slipshod document especially when compared with the macro-economic plan. Unfortunately, the Western conception of social welfare services — in terms of individualistic, palliative remedies — has left deep marks on the rural and urban development programs of underdeveloped countries also. Thus it becomes even more difficult to see the interdependence of social planning activities and socio-economic development, and both this greater difficulty, and the inadequately designed programs themselves, stand in the way of faster structural change

Keeping all of these considerations in mind, we conceive of welfare services only within a general social security system, where

they serve the extremely handicapped, and are extended in direct proportion to the process of urbanization and industrialization in the society. An enlarged and properly differentiated social security system could provide one of the main levers for rapid social structural development, as it would promote change from the pre-industrial structure On the other hand, priority should be given to evolving the necessary methodology to analyse the possibilities of the growth of social services and of the establishment of specified aims for given periods. Further, the degree of the extension of social security services could function as a social development coefficient; thus, investments in social security services shared by the greatest part of the population could serve as a partial index of the share of the people in economic development Such a measurement could alleviate the shortcomings of such conventional measures of economic development as the «development rate» and «per capita income», which do not in themselves indicate the distribution of «surplus wealth» nor the real repercussions of economic development in the life of the people.

III CONCLUSION

In what precedes, we have tried to show that although social planning in the First Five-Year Plan aims at fostering basic structural changes, it does not give a clear description of the actual and envisaged social structures We find that it is even further from its aim when the existing situation and specific targets of each sector of social planning are discussed The remedial, individualistic, mechanistic approach of the Plan, as it is observed in the social welfare services or community development programs, is a conspicuous sign of inadequate social planning, where change in terms of basic structure will be particularly difficult On the other hand, a survey of the subjects treated in the social plan strongly suggests that they have been chosen in a haphazard manner. What is more, great emphasis is placed in the Plan on administration and administrative services, leading one to think that administrative reforms and decisions are assumed to be the most influential factors in securing the desired social structural changes. It should be pointed out immediately, however, that these shortcomings are common to social planning efforts in all underdeveloped countries.

In conclusion, we can say that this review of some aspects of the social plan of the 1963-1967 period leads us to stress the following points:

To be effective, social planning must deal with structural changes, to a much greater extent than is the case with economic planning. A relatively rapid change in social structures requires several basic reforms. But the existing social structure, as well as the decision-power equilibrium it implies, shows resistance to such reforms. An unduly slow evolution of the security mechanisms during the transition from the pre-industrial society to the urban-industrialized one, is bound to add to difficulties by increasing and reinforcing these resistances to rapid structural change. In our opinion, the solution lies in the organization of an extensive social security system which will answer the structural need for functional integration in the urbanization and modernization process and further will provide us with a «social planning sector» which is convenient for proper planning. Finally, through adequate planning and investing in comprehensive socal security systems, it should be possible both to establish the relevant ties between economic development and social development, and to provide a measure of the extent to which economic development has been shared and enjoyed by the different groups in society.

XI

FINANCING TURKEY'S DEVELOPMENT PLAN *

by

K. BULUTOĞLU**

1. The Turkish Development Plan

The implementation of Turkey's Development Plan raises important problems which are more or less common to all underdeveloped countries engaged in a policy of economic planning.

This article will attempt to outline the importance of the financing problem in the Turkish Plan, to analyse the possible solutions, and to appraise the policies actually implemented.

In underdeveloped countries, the lack of funds for financing investments seems to be the most important obstacle to economic development, yet, one must not minimize the importance of other obstacles such as lack of skilled manpower and creative entrepreneurship, or inefficiency of the Administration and of other institutions. In order to follow a policy of accelerated economic development successfully, it is necessary to attack all of these obstacles

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at the same time In other words, it is nearly impossible to establish an order of priority among them, and thus concentrate efforts upon a chosen strategical variable so that its solution could ensure the automatic elimination of all other obstacles.

The principal development target fixed by the Turkish Plan is a 7 per cent yearly increase in GNP This target may seem very ambitious However, if the rapid increase in population is taken into account, this rate can only ensure a 4 per cent increase in **per capita** income As a matter of fact, the population growth in Turkey has reached the remarkable rate of 2 8 per cent per year during the last decade, and seems to be stabilized around 2 6 per cent for some decades. If Turkey is to catch up with the living standards of the industrialized economies, it is necessary that she assign herself a rate of increase in **per capita** income that is above those prevailing in industrialized countries. For instance, the OECD countries decided to increase their per capita income by a yearly 3 3 per cent in the coming ten years. A yearly increase of 4 per cent in **per capita** income would allow Turkey to catch up with the advanced Western countries only in two hundred years, if, meanwhile, these respective rates do not change. The target of catching up with advanced countries is, therefore, essentially a political choice involving the acceptance of the challenge of industrialization, and could be used as a slogan in order to catalyze human energies within the country. The choice of this target is also partially explained and justified by the development race which is in progress between the socialist and capitalist countries and in which the independent countries of the so-called 'Third World' have recently become engaged.

2. The Target Investment Level

In order to attain the 7 per cent development target, the Turkish Plan envisaged devoting 18 3 per cent of GNP to investments. For the period of 1950-1960, the incremental capital - output ratio (ICOR) has been calculated to be around 2:1 The relatively low level of the ICOR can be explained by the fact that cultivated areas were considerably extended during that period Since the limits of cultivable land were attained and even exceeded as early as the mid-fifties, it is quite reasonable to expect that the value of the ICOR will be higher in the next five years. In the Plan, however, it is estimated that an ICOR of 2.6:1 will be valid during the five years. Therefore, in order to realize an average development rate of 7 per

cent, it was accepted that 18.2 per cent (= 7 x 2.6) of GNP must be devoted to capital formation[1].

In spite of the relative stability, especially in the advanced countries, of the average capital-output ratio calculated by decades, it is not uncommon to discover important fluctuations in the value of the ICOR calculated for shorter periods. In an industrialized country, this fact is largely due to the fluctuations in the level of employment. In underdeveloped countries with an important agricultural sector, however, other causes gain in importance. For instance, in Turkey the value of the ICOR, which for the period of 1948 - 1955 was 1.91: 1, jumped to 2.47: 1 for the 1955 - 1960 period. As we mentioned above, this increase of 30 per cent[2] is, due to the fact that the limits of arable areas were reached as early as the first half of the Fifties.

Consequently, a unit increase in GNP will necessitate more capital in the future. Taking into account some other factors also, the State Planning Organization has estimated the value of the ICOR for the planned period as 2.6:1. Nevertheless, this estimation depends greatly on the choice of method; it is unavoidably arbitrary and subject to a large margin of error. It is probable that the share of highly capital-intensive investments in total investments will be greater than that foreseen in the Plan. As a matter of fact, the necessity of important investment expenditures for irrigation in order to increase the agricultural production, the increasing share of other infrastructural investments in total capital formation, and the lack of external economies in the early stages of industrialization, seem to justify this hypothesis. Consequently, it is not quite certain that gross capital formation at the rate of 18.3 per cent of GNP will be sufficient to ensure a 7 per cent increase in GNP.

This last point is of the utmost importance for the realization of the Plan's targets. The target of development being very high (7 per cent), a slight increase in the value of the ICOR would bring

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1 This is a simple application of the Harrod-Domar growth model, which shows the link between the rate of savings (s), the rate of increase in population (r), the increase of national product per unit of investment (ICOR) (p), and the increase of per capita income (g):

$$g = sp - r$$

2 A recent study made in the State Planning Organization gives values for the ICOR for the period 1951-64, ranging from 3.4 to 5.8, according to the choice of methods. It also shows that the value of the ICOR increased by 50-60 per cent from 1951-56 to 1957-64.

about a very important repercussion (seven times higher) upon the amount of resources necessary for financing investments[3].

The following table shows the evolution of the investment levels registered during the period of 1950 - 1960 and the ways for financing them.

TABLE 1

CAPITAL FORMATION, 1950 -- 1960

(In percentage terms)

Year	Inv./GNP	Financing	
		Domestic savings	Foreign capital
1950	9.6	8 9	0.7
1951	10.3	9 0	2 3
1952	12.8	8 2	4.6
1953	12 4	9 5	2.9
1954	14 7	11 3	3.4
1955	14.3	10.3	4.0
1956	13.4	11.3	2.1
1957	13 2	12 4	0.7
1958	13 9	13 1	0.8
1959	15 3	12 6	3 1
1960	15 8	13 5	2 4

Source: First Five-Year Development Plan, 1963 - 1967, p 16

During the period 1950 - 1959, the average investment level represented 13 per cent of GNP Domestic financing reached 10.6 per cent of GNP, and foreign capital represented 2 4 per cent of GNP. During the five years preceding the implementation of the Plan (1957 - 1961), the level of investments attained 14 8 per cent of GNP The shares of domestic savings and of foreign capital represented 12.8 per cent and 2 per cent of GNP respectively.

These figures show that the implementation of the Development Plan necessitates a sudden and considerable increase in the resources necessary for financing investments According to the Plan, the share of domestic savings has to rise from 12.8 per cent to 14.7 per

3 Perhaps the use of the ICOR for calculating the necessary amount of investment for the realization of a seven per cent increase in GNP is not a very sound method Especially in an underdeveloped economy, factors other than investments can have an important impact upon the development rate (i e education, reorganization, etc) Besides, the use of sectoral values of capital coefficients obtained from feasibility research rather than the overall value of the ICOR, would probably give a more adequate measure of the relation between investments and the increase in GNP. In the preparation of the Turkish Plan, however, only an overall ICOR has been used

cent, and that of foreign savings from 2 per cent to 3.5 per cent. In other words, the share of domestic resources will increase by 15 per cent, and that of foreign capital by 75 per cent Note that the latter indicates only the necessary increase in **foreign trade deficit.** The necessary increase in **total** foreign capital inflow is still higher, due to the increasing amount of repayments for the annuities of old debts To give an idea of the importance of this latter point, we should note that the aid necessary to cover both the repayments for old debt annuities and the deficit of the balance of payments, represented 6 4 per cent of GNP in 1963

3. Foreign Capital

The share of foreign capital in the amount of resources necessary for financing the Plan is a residual amount The amount of private savings and their possible evolution in the coming five years under the hypothesis of a 7 per cent increase in GNP has been calculated, and then the increase that the government can realize in public savings has been estimated The impact of the target increase in public revenues on private savings has also been taken into consideration The amount of financial needs which have not been covered by total domestic resources, determined the share of foreign capital[4]

A complementary procedure used for the calculation of the amount of foreign capital necessary for financing the Plan was the **estimation of import needs.** These consist of three principal items: (1) the imports of raw materials necessary for the full utilization of existing industrial capacity, (2) the foreign exchange expenditure necessary to realize planned investments, and (3) the capital goods which are not produced within the country To determine each of these three groups, the possibilities of production within the country have been studied. In order that the realization of the development rate should not be compromised, important restrictions could be foreseen only for consumer goods On the other hand, during the period 1959 - 1961, consumer goods represented only 10 per cent of total imports, while the respective shares of capital goods and raw materials in total imports were 47 per cent and 43 per cent Thus, restriction in the imports of consumer goods could not significantly improve the balance of trade, whereas a sudden increase in the total

4 Let the target rate of development be t, the rate of domestic savings s, the ICOR p, and the GNP Y; the need in foreign capital (F) is given by the following formula

$$F = (tp - s)\,Y$$

amount of investments would clearly have an important repercussion on the deficit of the balance of payments.

These few figures show us that in Turkey, as in almost all other underdeveloped countries, the implementation of a development plan with a high level of investment necessitates an important increase in foreign capital inflow, at least during the beginning years This is so not only for obtaining the necessary savings to finance investments, but also for ensuring the **physical realization of capital formation.** We know that for an underdevelped economy, it is nearly impossible to increase the volume of exports as fast as the increase in import requirements, due to the implementation of a development plan. Even if a mechanism of forced savings, e g increased taxation releases enough funds to finance the investments it does not at all follow that a part of the released resources can be transformed into foreign currency to pay for the imports of necessary equipment.

This difficulty is mainly due to the rigidities of demand in the international market, to the low level of short-run supply elasticity in the country's usual export goods, and to the hardships involved in the marketing of raw materials and agricultural goods, both as far as demand is concerned and from the point of view of the infrastructural investments necessary for the task (harbours, highways, dams, silos, freezing industy, etc)

Fortunately, the Turkish Development Plan does not foresee a sudden increase in imports for the first years of implementation This is mainly due to the fact that a transition program for 1962 has already increased the amount of imports by 30 per cent. However, in 1963 the need for foreign capital increased by 6 per cent, particularly as a result of a heavier repayment service for foreign debts

Table 2 gives an idea of the evolution of effective foreign capital inflow to Turkey during recent years and of the amount of foreign capital needs estimated for the Plan period

This table shows how important the share of foreign capital has been in the foreign trade balance of Turkey during recent years. In 1962 and 1963, foreign capital needs exceeded the amount of receipts from exports Note, however, that if the Plan is carried out with success, the need for foreign capital will diminish both as a percentage of GNP and in absolute terms Therefore, in the early years, inflow of foreign capital is foreseen in the Plan in order to face both the repayment service of old debts and the deficit in the

TABLE 2

FOREIGN CAPITAL REQUIREMENTS, 1961 - 1967

In million Dollars

	1961	1962	1963	1964	1965	1966	1967
1. Balance of current transactions (Plan)	—175	—268	—351	—273	—242	—246	—243
Actual		—221	—280	—100	— 76		
2. Debt repayments + Interest (Plan)	— 84	— 87	—148	— 99	—164	— 80	— 76
Actual		—127	—146	—141	—215		
3 Total foreign capital needs 1+2 (Plan)	—259	—335	- 399	—372	—406	—326	—310
Actual		—348	—426	—241	—391		
4 3/GNP (Plan) (in percentages)	4 8	5 6	6 4	5 6	5 7	4 3	3 8

Source : First Five-Year Development Plan, 1963 - 1967 and the 1966 Annual Program

current transactions The Plan recognizes the principle whereby foreign credits should be obtained on a long-term basis and at low rates of interest If the government fails to obtain the necessary amount of foreign capital conforming to these conditions, the improvement foreseen by the Plan in the balance-of-payments will not be realized.

The following table shows the relative importance of the payments of foreign debt annuities with respect to exports.

TABLE 3

BURDEN OF DEBT REPAYMENT ON EXPORTS, 1962 — 1967

In million Dollars

	1962	1963	1964	1965	1966	1967
1 Debt repayment and Interest (Plan)	87	148	99	164	80	76
Actual	127	146	141	215		
2 Exports (Plan)	325	348	374	394	427	457
Actual	381	368	411	459		
3 Repayment/Exports (Plan)	0 24	0 42	0 27	0 42	0 19	0.17
Actual	0.33	0.40	0 37	0.39		

Source : Five-Year Development Plan, 1963 - 1967 and the 1966 Annual Program.

The table shows that in the first three years of implementation neither exports nor debt repayment figures conformed to the Plan projections While the exports were higher than the predicted level, the debt repayment burden actually increased The rapid expansion of exports may have been partly due to the recovery of the economy from the depression of 1960 and 1961, and also to the good harvest of 1963 The fact that debt repayment exceeded the level predicted by the Plan proves that the government was not able to procure foreign aid conforming to the Plan's conditions. Accordingly, the balance-of-payments problem has remained as one of the trouble spots in implementation[5]

4. **Domestic Resources**

It was envisaged that during the Plan period the domestic savings, would increase by 15 per cent, or 2 percentage points of GNP, as compared to the preceding five-year period

The Plan does not precisely state the respective shares of private and public savings in total domestic savings However, projections about the evolution of private and public investments during the Plan period are available (cf **Table 4**) An average increase of 10 6 per cent per year in total domestic resources is the financial target of the Plan for this period

If the shares of private investments financed by public savings and foreign capital do not change during this period, we can project that the rate of increase in private savings will also be equal to that of private investments The Plan projection which assumes that private savings are to increase at the rate of 11 per cent per year, whereas disposable incomes increase at the rate of 5.88 per cent, implies an income elasticity of demand for private savings which is equal to 1.87 Moreover, we know that the rate of expansion of private savings has to be above that of private investments in order to cover the projected diminution of the share of foreign aid in financing (cf **Table 2**)

Can we hope for such an increase in private savings? Total private savings are composed of three items voluntary savings, undistributed profits, and institutional savings The evolution of voluntary savings is a function of the disposable income of households.

5 A consortium was created by thirteen Western countries in 1963 in order to help Turkey meet her foreign capital needs required for the implementation of the Plan The Consortium tries to meet the foreing capital needs of Turkey year by year It should be remarked here, however, that the credits obtained through the Consortium during the first three years of implementation did not have all the prerequisites of the Plan

The Plan foresees that the share of disposable incomes will follow a decreasing trend during the planned period. In other words, the disposable income of households will increase at a slower rate (5 88 per cent) than the GNP (7 per cent) The Plan also foresees a decrease in the inequality of income distribution, by way of increasing lower incomes at a higher rate than the average increase foreseen for the total disposable income

On the other hand, it does not seem possible to increase the total supply of savings in any significant proportion by facilitating the creation of a capital market, there are too many obstacles preventing the creation of such a market, at least in the short run It is indeed impossible to remove these obstacles for the immediate purpose of financing the Plan, as most of them have their origin in the structure of the economy [6] Under these circumstances it is quite doubtful that the overall income elasticity of demand for savings can attain such a high value as 1,87 Accordingly, the projected increase in private savings will have its origin more in institutional savings and in the retained earnings of incorporated societies than in voluntary private savings Although we do not have sufficient statistical data on the trend of institutional savings, we can safely assume that the rate of increase of these savings cannot very much exceed that of the GNP On the other hand, an increase of 7 per cent in GNP can increase the profits very rapidly, and the share of undistributed profits reinvested in the same business constitutes an important part of total private savings, but it is doubtful that the increase in the undistributed profits could raise the rate of increase in overall private savings to 11 per cent

Consequently, if, as seems very probable, the rate of increase in private savings stays below the level of the rate of planned increase in private investments, it will be necessary to supply the private sector with public funds or foreign capital in order to fill the gap; for otherwise, the private investment targets projected in the Plan will not be realized. Thus, if the government wants to reach the target level of investments at all costs, it must increase public investments beyond the level projected in the Plan

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6 If we are to expect the middle classes to buy securities and shares, it is necessary that, in their time preference scale, the future income should not be discounted sharply with respect to present income In Turkey, this is not the case for at least three important reasons first, the middle classes are too poor to prefer future incomes for the sake of interest reward, secondly, the immediate needs are growing very fast due mainly to the propogation of new consumer durables, thirdly, the generalization of compulsory social security for these classes, diminishes the need for voluntary savings

TABLE 4

EXPENDITURE TARGETS, 1963 - 1967

In billion TL. (1962 prices)

	GNP	Private consumption	Private investments	Total private expenditures	Public expenditures current	Public investments	Total public expenditures	Foreign trade deficit	Total investments
1962	52 7	38 6	3 5	42 1	7 6	5 8	14 4	2 1	8 6
1963	56 6	40 5	3 8	44 3	8 6	5 8	14 4	2 3	9 6
1964	60 3	43 0	4 2	47 2	9 0	6 6	15 6	2 5	10 8
1965	64 5	45 4	4 7	50 1	9 5	7 1	16 6	2 2	11 8
1966	69 0	47 6	5 3	52 9	10 5	7 8	18.3	2 2	13 1
1967	73 9	50 2	5 9	56 1	11 5	8 4	19 9	2.1	14 3
Rates of increase or decrease (in percentage terms)									
1962	—	—	—	—	—	—	—	—	—
1963	+7	+4 9	+8 5	5 2	13 0	+13 7	+13 3	+9 5	11 6
1964	+7	+6 2	+10 5	6 5	4 6	+ 13 7	+ 8 3	+8 6	12 5
1965	+7	+5 6	+12 0	6 1	5 6	+ 7 5	+ 6 4	—12 0	9 2
1966	+7	+4 8	+12 7	5 6	10 5	+ 9 8	+10 2	0 0	11 0
1967	+7	+5 5	+11 3	6 0	9 5	+ 7 6	+ 8 7	—4 6	9 1
Rates of increase · averages of the five-year period (in percentage terms)									
	7	5 4	11 0	5 9	8 6	10 6	9 4	0 3	10 7
Shares in GNP (in percentage terms)									
1962	100	73 2	6 0	79 2	14 4	9 7	24 1	4 0	16 3
1963	100	71 8	6 7	78 5	15 2	10 3	25 5	4 1	17 0
1964	100	71 3	7 0	78 3	14 9	10 9	25 8	4 1	17.9
1965	100	70 4	7 3	77 7	14 7	11 0	25 7	3 4	18 3
1966	100	69 0	7 7	76 7	15 2	11 3	26 5	3 2	19 0
1967	100	67 9	8 0	75 9	15 5	11 4	26 9	2 8	19 4
Averages of the five-year period									
	100	70 2	7 3	77 4	15 1	11 0	26 1	3.5	18 3

5. Financing with Public Funds

All the preceding analysis shows clearly the importance of public funds in the implementation of the Turkish Five-Year Plan. Indeed, it is necessary to increase public revenues not only to step

up capital formation in the public sector but also in order to eventually compensate the shortcomings of private savings. An efficient utilization of policy parameters could create the necessary resources for the attainment of investment objectives The most important among these relate to the measures taken in the field of fiscal and monetary policy

In an underdeveloped country, however, monetary policy does not offer much possibility for transferring a part of the production factors from consumer goods to capital goods It is perhaps possible to increase the total amount of investments to a certain extent through resorting to inflation as a means of financing; but inflation cannot be used systematically to create investible funds because people can adjust their behaviour to rising prices, and if everybody succeeds in doing so — as indeed they are bound to, in the long run — the purpose is defeated The harmful effects of inflation are too well known to be repeated here lengthily Nevertheless, let us point out two important distortions that inflation often creates. First, it upsets the relative prices, and consequently, the already defective mechanism of choice for determining the socially most beneficial investments : It makes short-term investments more attractive through increasing market uncertainty Secondly, it disturbs the income distribution and increases inequalities in incomes In Turkey, the inflation of 1953 - 1959 was particularly harmful in these two respects, and did not even contribute in any significant manner to raising real per capita income

Thus, in the short run, the government has only one policy measure which could be effective in squeezing out the necessary resources for the Plan . fiscal policy. Further, it is obvious that in order to carry out the implementation of the Plan successfully, the government should adjust its fiscal policy to the whole set of Plan objectives with consistency This is why the problem of tax reform gained such crucial importance as early as the year preceding the enforcement of the Development Plan.

6. Tax Reform for the Implementation of the Plan

As Kaldor has pointed out [7], there are two basic approaches to the problem of tax reform for fostering economic development. The first approach is to create the necessary funds through

7 N Kaldor, **Report on the Turkish Tax System**, a Confidential Report to the Prime Ministry of Turkey, April 21, 1962, see also his article Taxation for Economic Development, **The Journal of Modern African Studies**, 1964, Vol I, n 1, pp 7 - 24

taxation The second is to encourage household savings and provide investment incentives to firms, through tax exemption and alleviation measures Following Kaldor's terminology, we will call the first the **«resource approach»** and the second the **«incentive approach»**.

In Turkey, tax reform efforts for the implementation of the Plan have been influenced by both approaches[8] We should like to analyse briefly the most important propositions made in this connection, some of which have been accepted and put into effect by the Parliament

7. Tax Incentives for Investments: Investment Allowance, Accelerated Depreciation, Tax Refund for Exports.

The most important reform envisaged to increase investments was the introduction of investment allowances in the income tax and corporation tax laws It is obvious that the possibility of deducting investment expenditures from the income tax basis increases the profit rate But the most important aim from the point of view of Plan implementation is to increase the **total** amount of investments Is it likely that an increase in the profit rate of capital will induce the entreprenours to invest more, or more precisely, the community to consume less? This question is important, for in Turkey, as in most other underdeveloped countries, the major obstacle to an increase in investments is the lack of savings

Should investment allowance be generalized and made to apply to all kinds of investments, it would indeed help to raise the rate of interest, and, therefore, the reward for savings. However, considering that in an underdeveloped country the rate of interest is already very high and that the amount of voluntary savings is, above all, a function of income, it will be seen that this effect is quite negligible

8 The Commission created by the Ministry of Finance and composed of the government's tax experts, and representatives of business, was mainly concerned with improving the tax system from an incentive point of view, through the granting of additional concessions of various kinds, with little regard for the unfavourable effects on the public revenue Two foreign experts who participated in the work of this Commission as advisors, Professor Sent and Professor Schmolders of Germany, emphasized tax relief measures, and especially investment allowances, for increasing the incentives to investment and saving On the other hand, the State Planning Organization and Professor N Kaldor, who was invited by this organization, has put more emphasis on the creation of resources through additional taxation, although Kaldor's proposals for land taxation were also very favourable to the incentives for increasing agricultural output. The Government chose the incentive approach, and the top officials of the State Planning Organization resigned because, they said, the Plan's implementation had been endangered by the failure of the government to accept the measures necessary to find adequate resources to finance it.

More precisely, investment allowance can have two conflicting effects upon taxpayers . **the substitution effect** and **the income effect.** The substitution effect tends to raise the interest rate, if the allowance is accepted for all kinds of interest rates including the risk; since interest rates are already high, however, a small increase realized in the inteiest rate through investment allowance would not markedly diminish the propensity to consume.

It is true that if there is already a substantial amount of hoarding in the economy bu not sufficient incentives to invest in productive activities, then investment allowance may have some effect in diverting a part of these savings from speculative investments and /or from consumer durables into productive capital formation. As a matter of fact, the existence of important idle savings together with a lack of incentive for investing them productively, is the basic assumption of those who favour the introduction of investment allowance into the tax laws.

If the investment allowance is accepted selectively, i e., for only some production sectors, the substitution effect would only operate for channelling the existing funds towards these sectos The impact of the investment allowance on reallocation of investments could be stronger and more effective than on saving **per se.** But even in this case, the actual impact of the investment allowance depends very much on the particular institutional background of the different economic sectors

The income effect consists in the increased income that taxpayers get, thanks to the investment allowance Suppose that the substitution effect of the investment allowance is nil, so that the entrepreneurs are planning to invest just as much as they were going to before this measure. The increase realized in the entrepreneurs' income through tax relief will be divided between savings and consumption according to their respective marginal propensities. If the decrease in public investments, due to the diminution in tax revenues, exceeds the saved and invested part of total tax relief, total capital formation will diminish. Since, in the context of an underdeveloped economy, the impact of the substitution effect on the total amount of savings seems to be much weaker than that of the income effect, this apparently paradoxical outcome is likely to be the normal result

As mentioned above, those who stress the importance of investment allowance for an accelerated capital formation in underdeveloped economies, believe that it is not the lack of savings, but the

lack of adequate incentives for entrepreneurs that is responsible for the low level of investments. This assumption does not seem realistic There is no evidence that such idle savings exist in these countries in substantial amounts Even if we suppose that some hoardings are available, the efficacity of investment allowance in diverting these funds from unproductive assets to productive investment activities is very doubtful Generally, in underdeveloped countries, the most important hindrance to productive investment decisions is not the low level of the related profit rate which, on the contrary, seems very high in most cases, but the very high level of **uncertainty** about the long-term conditions of the market Investment allowance can increase the profit rate, but it can not abolish the uncertainties of the market, nor other institutional hindrances. The uncertainty of the prospects for future profits detracts from their value very sharply and makes the speculative short-term investments much more attractive [9]. Adequate policy measures which would diminish the degree of uncertainty of market conditions (including public expenditures to this end), could spur investment decisions much more effectively than the most generous investment allowances

Investment allowances, as well as other tax facilities, are also advocated on the grounds that they would attract foreign capital. Would this factor carry enough weight as to make the adoption of investment allowance beneficial to economic development? The economic conditions of underdeveloped economies do not seem to justify such a favourable conclusion The exports of these countries consist mainly of raw materials and agricultural goods. Since the elasticity of demand for these goods is often low, foreign investment for their expansion is more sensitive to the changes in demand conditions than to those in supply conditions, except when the country's share is very small in the world market. If the aim in attracting foreign capital is to meet the needs of the home market and/or to realize the replacement of imports, such tax alleviation measures can be of some use But, for native entrepreneurs and perhaps even more for foreign investors, the main hindrance, apart from uncertainty, to the realization of investments stems from the insufficient size of the home market. Furthermore, excessive privileges bestowed on foreign capital can even increase the uncertainty

9 On the other hand, it is true that by way of increasing the profit margins, the investment allowance turns long-term investments into short-term ones, and makes their realization more attractive than before, but this effect has a very restricted role

of the home market by inciting the animosity of the local people vis-à-vis foreign capital Finally, as we have already mentioned, relief measures for attracting foreign capital might result in sheer loss for underdeveloped countries to the benefit of the investing countries, if and when all or most of the underdeveloped countries, competing to attract foreign investors, enforce similarly conceived tax alleviation measures, since in this case the tax relief measures cancel each other and the relative attractiveness of investment becomes as it was before these measures [10].

Besides investment allowance, the Parliament also passed other tax alleviation measures such as accelerated depreciation (by the declining balance method), tax refund for exports, and the postponement of import duties for imported equipment and machinery. Accelerated depreciation and tax refunds are widely accepted measures in modern tax legislation On the other hand, the postponement of import duties does not result in a definite loss of revenue for the government; it only delays the payment of the amount due. All of these three measures, although not effective on total savings, can be useful in directing private investment into the preferred sectos, if used selectively

8. Resource Creation through Taxation

Professor Kaldor, in a confidential **Report on the Turkish Tax System** emphasized the creation of resources through taxation. As we have already mentioned, his tax proposal for agriculture, besides creating a considerable amount of investible funds (nearly 2 per cent of GNP), contained important incentive features for increasing the supply of both capital and labour to the land.

Professor Kaldor proposed a progressive tax on the potential income of land. The tax basis is «the average net product of agriculture, of each particular region and each particular type of land, **as defined for purposes of national accounting,** not the market value of the land (as is the case with the present land tax), or the gross produce of the land (as was the case with the Ottoman tithes system)». The tax is progressive, «taking into account the size of

10 Another harmful effect of investment allowance on capital formation is the delay that it can cause in investment decisions In the case of prior approval being required for benefiting from investment allowance, the entrepreneurs may postpone investments until they get approval for their projects from the tax authorities

the land holdings of the individual farmer, and just a tax on the land itself, irrespective of the wealth of the owner».

Measuring average net product with the help of national income estimates in agriculture (as a moving average of the last five years), Kaldor's system avoids the insuperable problem of the assessment of the market value of the land. Since they do not pay taxes for the products they get above the potential average, this system induces farmers to increase the supply of labor and capital to their land. Since it is the potential, and not the actual, which constitutes the basis of the tax, it punishes the underutilization of land

The tax rates proposed being progressive, the proposal also encourages the acquisition of land by poor peasants, for the big absentee landowners will be induced to sell the parcels which are under the heaviest tax rates

Kaldor's proposal for land taxation conforms to the theory and the actual process of economic development. Through land taxation, he wants to create an additional agricultural surplus necessary for feeding the manpower which will be transferred to the industrial sector during the industrialization process However, the administrative difficulties of Kaldor's proposal should not be minimized. The indexation of the plots of land is an especially difficult task; even so, it is not more difficult than the valuation problem

A tax on the value of the land, instead of its potential output, would have the same impact upon the economy, provided that registered valuation reflects the real market value without any time-lag. But unfortunately, in underdeveloped countries it is very difficult and administratively costly to follow the actual changes in land values. For instance, in Turkey the government collects the land tax on the basis of the value registers of 1936; in spite of the article of the land tax law stipulating that a reassessment be made every ten years, no new assessment has been made since then.

The Turkish Government did not adopt Kaldor's proposals for land taxation, and incorporated the agricultural sector into the income tax system, with large exemptions for owners of medium -size and small plots of land. There is no doubt that even in developed countries, the incorporation of the agricultural sector into the income tax system creates great administrative difficulties. In a country like Turkey, where the administration of income tax proved

to be a failure [11] during the first decade of its enforcement, extension of this system to agriculture is an absurdity, and the receipts that the government can obtain through such a system are very small indeed, with respect to the amounts needed for financing the Plan. In fact, the income tax revenue from agriculture has not exceeded the revenue from the livestock tax, which was repealed on the grounds that agriculture was going to be taxed on a more extensive base!

9. Indirect Taxes

In the first year of the execution of the Plan, indirect taxes were the major source of revenue to which the government had recourse. The increase made in the rates of existing indirect taxes increased the degree of regression of the Turkish Tax System. This policy was contrary to the goal of attaining a more equitable income distribution. The last changes made in indirect taxes are mainly due to the government's urgent need for increased revenue, whereas the indirect taxes of Turkey need an extensive reform both from the administrative and economic point of view

Until 1957, the general excise tax used to be collected at the last stage of manufacturing. But with the reform of 1957, the collection was moved to the first stage of production, and consequently lost its pervasiveness. The main reason for removing this tax from the final to the first stage of production was a concern, on the part of the Administration, for reducing the number of taxpayers, and consequently, the administrative cost of collection. But there is also a purely political reason : through the exoneration of the production units which are in the intermediary or final stage of production, the government wanted to obtain the political support of these producers Indeed, most of the production units operating in the first stage of production are government owned enterprises As a result, the load of these indirect taxes was transferred to the public sector Since these enterprises could not set their prices freely, a short time

11 In Turkey, only the tax on incomes subject to withholding at source is imposed satisfactorily The income tax returns for other categories of incomes are largely fraudulent The tax evasion rate has exhibited an increasing trend during the ten years of implementation, i e , 1950 - 1960 However, in recent years the government has enacted a series of measures to combat tax dodgers **declaration of wealth** to check the consistency of the tax payer's wealth with his declared income, wider application of **lump-sum taxation** to retailers, taxation on the base of expenses when the latter are incompatible with declared income, and the disclosures of tax returns But these measures do not seem to have had a decisive impact on the degree of compliance with tax laws.

after the change, they found themselves insolvent and unable to pay their tax debts Even before the increase in their tax burden, they had to resort on a large scale to Central Bank credits. In order to face the increased taxes they increased their borrowings from the Central Bank. As a result, the burden of the tax relief accorded to the intermediary and final producers was, in effect, redistributed to low-income groups through increased inflation.

The abolition of the commodity taxation on the manufacturing of certain selected primary goods narrowed the tax basis sharply and, in order to get the same amount of receipts, the government had to double or triple the tax rates Accordingly, the substitution effects of the tax were strengthened and evasion became more lucrative.

In order to improve the yield and the substitution effects of the Turkish excise tax, it is necessary to extend it to further stages of production At each stage, only the value added must be the basis of taxation. To be sure, in an underdeveloped economy, the size of certain selected primary good narrowed the tax basis sharply of value-added tax would create very serious administrative difficulties

In order to avoid these difficulties as far as possible, it would be wise for the Administration to extend the tax to further stages only in those sectors where the established technology necessitates large-scale plants, i.e , in those above a minimum size. In cases where the government needs to extend the tax further, it must first reduce the rates in order to diminish the reward of evasion for smaller enterprises While putting into effect the Development Plan, the government increased mainly the indirect taxes; instead of carrying out a coherent reform in the field of indirect taxes, it was preferred to enact some hasty excise tax increases.

10. Price Policy in the Public Sector

In Turkey the public sector covers an important part of the economy More than half of the productive investments are made by public enterprises The price policy of these enterprises can and should be used to create funds for capital accumulation in the public sector We can classify public enterprises in three large groups: **utility enterprises, revenue monopolies,** and **purely competitive enterprises.**

For the first group, profit maximization is not the main goal. However, there is a wide-spread tendency in political circles, as well

as in public opinion, to over-emphasize their function of welfare distribution. As a result, these enterprises are often compelled to charge the customers very low prices. It is necessary to overcome this tendency and give these enterprises the possibility of using a price policy adjusted to market conditions. Such a policy would permit the state enterprises to create a large part of the funds necessary for their investments.

From the economic point of view, it is obvious that revenue monopolies should have virtually no other principle for pricing than that of maximizing their profits. Nevertheless, the government should decide, as a political matter, to what extent the profit possibilities of monopolies are to be exploited.

For those public enterprises competing with private enterprise, prices are determined by market conditions In Turkey, however, the assignment of some subsidiary functions of welfare distribution to public enterprises has been a common practice. In the period of 1946 - 1960, and particularly in the Fifties, these enterprises were utilized by governments for erratic welfare distribution and favouritism in order to get local political support. As a result, public enterprises were obliged to buy their raw materials for prices higher than competitive market prices so as to protect primary producers, and to sell their products at prices lower than equilibrium prices so as to protect the consumers. The result of this absurd «welfare policy» was increased borrowings from the Central Bank to meet their deficit, and as a result, increased inflation.

There is another tendency which holds equally for the whole public sector The government tries to decrease unemployment by hiring too much manpower for the public sector The result is that government offices are overcrowded, and Parkinson's Law can be said to operate fully Similarly, under political pressure, public enterprises supply jobs of submarginal productivity, or zero and even negative marginal productivity, to the unemployed. **The political interference in the management of public enterprises is the most important reason for their low efficiency.** Welfare distribution, and help to the unemployed should take other forms; this would also permit public enterprises to give a clearer picture of their actual performance.

The price policy principles assigned by the Plan to the public sector of production are similar to those elaborated above. Further, in order to render possible the enforcement of these principles, the Plan urges the reorganization of the State Economic Enterprises.

The work for the reorganization of State Economic Enterprises, which started as early as 1960, did not give any satisfactory results. The statutory law of these enterprises has finally been changed (Laws 440 and 468), but the radical measures of the early drafts were watered down so that the possibility, and also the practice, of political interference in the management of enterprises did not diminish Anyone who is reasonably well-informed about the structure of the Turkish economy will admit that the success of the Development Plan depends on the actual efficiency of State Economic Enterprises, since more than 60 per cent of industrial investments are made by these enterprises If the institutional reforms necessary for their efficient operation fail, the overall financing equilibrium of the Plan will be disturbed and the realization of development targets will be in danger

In the first year of the Plan implementation period, the State Economic Enterprises did rather well in resource creation. But in the second and third years, they lagged behind the Plan targets, and once again, under the pressure of politicians, their price policy is becoming more and more oriented towards welfare distribution rather than towards the creation of compulsory savings.[12]

11. Conclusion

As Kaldor pointed out,[13] in underdeveloped countries there are two basic approaches to the policy of economic development : (1) to increase the incentives of the private sector for capital formation, and (2) to create the necessary funds for capital accumulation through public compulsion The first approach stresses more the importance of decentralized decision units, while the second stresses the centralization of decisions through the accumulation of a greater proportion of investible funds in the government's hands.

At first glance, these two approaches seem to be influenced by two opposite political philosophies: capitalism and socialism. In fact, however, the two alternative approaches are not rigorously linked to these philosophies A government can choose the compulsory savings approach, but foster capitalism through financing private enterprise with the collected funds. The development of Japan is a striking example of such a strategy. However it is not incorrect to say that,

12 Data relating to the performance of the S E E's, as well as to other problems of the Plan period, can be found in the Appendix to this paper, on the «Implementation Results of the First Three Years»

13 N Kaldor, **Taxation for Economic Development, art. cit.**

at the present time, the underdeveloped countries which choose the creation of savings through taxation also foster the growth of a public sector engaged in production for the market.

As to the relative efficiency of these two approaches in realizing economic development, it is necessary to distinguish once again between the developed and the underdeveloped countries. In the former, an economic policy of tax incentives can bring about the desired resul. of accelerating eonomic growth In the underdeveloped countries, however, where the major obstacles to private investment are structural ones such as uncertainty, the small size of the market, and inadequate infrastructural facilities, tax incentive measures would not be sufficient in ther elves to bring about an accelerated capital formation The low lewel of **per capita** income implies that increased savings can only be realized through compulsory measures. It should be stressed that in these countries, the incentives to private business created through the improvement of the infrastructural network (or more generally through public expenditure), will most probably be more fruitful than those created through tax relief measures

During the preparation and the implementation of the Turkish Five-Year Plan these two policy approaches seem to have alternated. The State Planning Organization was, at the outset, a staunch defender of the resource approach, while the Tax Reform Committee (and **ad hoc** Committee composed of tax officials and representatives of business circles) advocated the incentive approach. The Turkish Plan had, in its first draft, stressed the resource approach through public compulsion, i.e , mainly taxation. An important reform in the tax system seemed necessary in order to put the Plan into effect. But later, after giving due consideration to the pressures in the Parliament, the government changed the Plan's proposals for financial equilibrium, and gave more emphasis to tax relief measures which would induce individuals to save more and to take more risks through investments However, with the poor results of the first year of execution, the government changed its attitude, and shifted its ground timidly towards the compulsory resource creation approach. The tax burden was somewhat increased to obtain the necessary funds without, however, any of the important tax measures initially advised by the S.P O having been taken. Thus, the policy of the Turkish government for the execution of the Plan has oscillated between the two approaches, in search of a difficult compromise.

The political instability which marked the first three years of the Plan was the major reason for these oscillations. Five different governments, four of them coalitions, carried on the implementation of the Plan during these three years Accordingly, the government's attitude towards the problem of financing the Plan could not fail to exhibit important changes. The first two «İnonü» coalitions sought for a compromise between the incentive and resource-creation approaches. The third coalition government, also led by Inonü, leaned toward resource creation and tax reform After the fourth coalition, which was formed, for a transition period, by conservative groups led by the Justice Party, the government formed solely by the Justice Party committed itself decidedly to the incentive approach, and leaned towards welfare distribution through the price policy of State Economic Enterprises

The Turkish experiment in planning is, in the light of six years of endeavour, in accordance with the outline we have given of the policies of development in underdeveloped countries. We think that this outline, although somewhat simplified, covers all the shades of economic policy implemented in developing countries. Tax policy is the field where the contrast between the features of the two approaches to resource creation is most conspicuous.

Appendix : IMPLEMENTATION RESULTS OF THE FIRST THREE YEARS

1. The Private Sector

According to the figures of the State Planning Organization, in the first two years of implementation, the Plan's **investment targets** were attained by the private sector, but not by the public sector. (cf. **Table 5**).

TABLE 5

ATTAINMENT OF INVESTMENT TARGETS

In million TL. (current prices)

	Public	Private	Total
1963			
Program's target	5620	4200	9820
Realization	5140	5000	10140
Realization in %	83	119	103
1964			
Program's target	6850	4500	11350
Realization	5660	4850	10510
Realization in %	83	108	93

Source . 1966 Annual Program, Table 7

If these figures are correct, how can we explain the unexpected performance of the private sector in the first two years? The investment target set forth in the Plan for the private sector may have been fixed too low in the first year of the Plan As a matter of fact, the target for this year was projected on the basis of the performance of the years 1960 - 1962, which were recession years for the private sector

Thus, it is quite possible that the rapid increase of private investments is partly due to the recovery from the recession of 1960 - 61. Many investments, delayed in 1960 - 62 on account of political instability and recession, may have been undertaken in the first two years of the Plan period It remains to be seen whether or not the expansion of private investment will follow the same trend in the remaining years of the Plan period

The sectoral breakdown of private investments, however, did not conform to the Plan: the targets were exceeded in the construction sector but could not be attained in industry

Table 6 shows the financing pattern of **ex ante** private industrial investments according to the anticipations of entrepreneurs In the projected pattern of financing, the part to be secured by the entre-

preneurs' own resources, exhibits a diminishing trend whereas the part of domestic and foreign credit increases. This trend can be interpreted as additional evidence of the fact that during the recovery period the entrepreneurs had disposed of more resources of their own, thus the continuation of intended investments would have made them more dependent on external resources.

In the Plan period, foreign private investment did not increase fluctuating around 25 million dollars annually. As for the net **foreign** capital inflow, the targets of the Plan were exceeded in the first three years of implementation· the total net foreign savings in the first three years was less than the level foreseen by the Plan (cf. **Table 7**) This result was due to the expansion of exports above the level predicted by the Plan, and the improvement of the balance of invisible transactions, thanks to the unforeseen remittances of Turkish workers abroad

2. The Financing of the Public Sector

During the first three years of implementation, the government was not able to attain the **public investment** and **current expenditure targets** foreseen by the Plan (**Table 8.1**). The lagging behind the objectives was greater in the case of **investment expenditures,** especially in the case of State Economic Enterprises (cf. **Table 8.2**). In 1963 - 65, the public sector as a whole failed to realize about 15 per cent of its total investments foreseen in the Annual Programs The State Economic Enterprises were unable to effect 28 per cent of their investments While in the general and annexed budgets, the attainment of the Annual Program's targets improved through the years (92 per cent in 1963, 86 per cent in 1964, 97 per cent in 1965), the situation actually deteriorated in the case of State Economic Enterprises (87 per cent in 1963, and 67 per cent in 1964 and 1965).

Public current expenditures were realized more successfully than investments. For the whole period, 96 per cent of these expenditures were realized. In 1963 and 1964, 91 per cent and 92 per cent respectively of current expenditure targets were realized, and in 1965 the target was exceeded by 7 per cent.

The failure of the public sector to attain investment targets stemmed mainly from its inadequate capacity to prepare investment projects and to implement them The failure to attain current expenditure levels, on the other hand, was due to the shortcomings of public revenue collection in the fiscal year.

One other point that should be mentioned in connection with

TABLE 6

DOMESTIC AND FOREIGN FINANCING REQUIREMENTS FOR INDUSTRIAL INVESTMENTS

	1963		1964		1965		1966	
	Value	%	Value	%	Value	%	Value	%
Domestic capital	536 8	64	266 3	46	261 3	35	337 1	37
Foreign capital	119 3	14	69 5	12	104 5	14	63 8	7
Domestic credit	170 4	20	208 4	36	246 3	33	382 7	42
Foreign credit	25 5	3	34 7	6	134 4	18	127 5	14
Total	852 0	100	579 0	100	746 5	100	911.1	100

Source : Enquiry made by the State Planning Organization

TABLE 7

LEVELS OF NET FOREIGN CAPITAL INFLOW

In million Dollars

		Foreign Trade Deficit	Deficit of Current Transactions
1963			
1	Plan's target	— 219	— 251
2	Actual	— 320	— 280
3	Realization in % (2/1)	68	90
1964			
1	Plan's target	— 253	— 273
2	Program's target	— 265	— 280
3	Actual	— 126	— 100
4	Realization of the plan's target in % (1/3)	200	273
5	Realization of the program's target in % (2/3)	210	280
1965			
1	Plan's target	— 236	— 242
2	Program's target	— 255	— 207
3	Actual	— 113	— 76
4	Realization of the plan's target in % (1/3)	208	218
5	Realization of the program's target in % (2/3)	226	271
TOTAL			
1	Plan	— 708	— 766
2	Program	— 739	— 738
3	Actual	— 559	— 456
4	Realization of the plan's target in % (1/3)	127	167
5	Realization of the program's target in % (2/3)	132	162

public current expenditures is that the expenditure targets set in the budgets on the basis of the Annual Programs were modified at various moments in the course of the fiscal year. **Table 9** shows the magnitude of these modifications They were greater in such items as investment, capital endowment, and transfer targets, and the trend is toward even greater changes This fact indicates a slackening of the planning will and discipline, on the part of the government.

Tables 10.1 and **10.2** show the attainment of the Plan's **public revenue** targets The greatest discrepancy between targets and realization is found in tax and local administrations' revenues, the averages of the first three years being 86 per cent and 84 per cent respectively The average attainment of total revenue targets is 91 per cent for the three-year period; the breakdown according to years is 87 per cent, 89 per cent and 95 per cent. These figures indicate a definite improvement in the attainment of annual total revenue targets

If we look into the particular items of revenue instead of the total, we find that the divergences from the target levels of revenue are even greater for individual items **Tax revenue targets** were realized by 84 per cent, 83 per cent, and 89 per cent in 1963 - 65, exhibiting a moderate improvement in realization. Nevertheless, total tax revenue has not exceeded 15.1 per cent of GNP in 1965, lagging behind the Plan's objective (16 93 per cent) by 11 per cent. This is a very low level of tax revenue indeed compared to the ambitious current and investment expenditure targets of the Plan On the other hand, the **revenues obtained from sources other than taxation** (public property, lottery, special funds, public debt, etc.) exceeded by 24 per cent the targets of Annual Programs. Seemingly, the counterpart funds generated by foreign aid secured 9 per cent more revenue than the level predicted by the programs. Since these two sources of revenue are not as steady as tax revenues, the dependence of the Plan's financing on unsteady and exogenous factors can be said to have greatly increased during the first three years of implementation It is, therefore, necessary to stress tax reform measures in order to free the financing of the Plan from the random effects of day-to-day fiscal measures.

In the first three years, the State Economic Enterprises secured 92 per cent of the revenues expected from them. But the trend of their performance in resource creation shows definite deterioration: the rates of attainment of targets were 109 per cent in 1963, 97 per cent in 1964, and 76 per cent in 1965. The situation is even worse

from the point of view of the attainment of the resource creation targets found in the **Annual Programs (Tables 11.1** and **11.2)**. As a matter of fact, taking into account the fact that the tax effort could not be stepped up to the level envisaged in the Plan, the Annual Programs have **decreased** the tax revenue targets of the Plan and increased, instead, the funds that were to be realized by the State Economic Enterprises (cf. **Table 11.2**). As a result, the attainment of the Annual Program targets, as compared to the Plan targets, were higher for general and annexed budgets and local administrations, but **much lower** in State Economic Enterprises (95, 71 and 41 per cent respectively)

Finally, the revenue situation should be examined from the point of view of the **social justice principles** envisaged in the Plan. Above, we pointed out that in the first three years of implementation, the actual tax revenue collection lagged behind the Plan target by 14 per cent. Furthermore, in tax revenue increases, the rate of increase of indirect taxes was higher than that of direct taxes (cf. **Table 12**). This fact roughly indicates that, contrary to the general strategy of the Plan, the principle of equity in taxation, which would tend to diminish income inequality, was not respected

TABLE 8.1

ATTAINMENT OF PUBLIC EXPENDITURE TARGETS

	Target (1)	Realization (2)	Difference (1 - 2) (3)	Realization in % (1/2) (4)
1 General and Annexed Budgets				
a Current Expenditure	22 291	21 381	— 910	.96
b. Investment »	10 517	9 659	— 858	.92
c Transfer »	9 561	8 707	— 854	.91
2 Local Administrations				
a Current Expenditure	2 889	2 916	+ 27	01
b Investment »	1 605	1 408	— 197	.88
3 State Economic Enterprises Investment	7 544	5 447	—2097	.72
4. Revolving Funds Investment	817	793	— 24	.97
5 Total Public Expenditure	55 224	50 311	—4913	.91
a Current	25 180	24 297	— 883	.96
b Investment	20 483	17.309	—3176	.85
c Transfer	9 561	8.707	— 854	.91

Source : 1966 Annual Program, from Table 452.

TABLE 8.2

ATTAINMENT OF PUBLIC EXPENDITURE TARGETS (a)

In million TL. (current prices)

	1963				1964				1965 (c)			
	Target (1)	Realization (2)	Difference (1)—(2) = (3)	Realization in % (1)/(2) (4)	Target (1)	Realization (2)	Difference (3)	Realization in % (1)/(2) (4)	Target (1)	Realization (2)	Difference (3)	Realization in % (1)/(2) (4)
1. General and Annexed Budgets												
a Current Expenditure	7160	6546	— 614	91	7331	6785	— 545	93	7800	8050	+ 250	103
b Investment »	3024	2797	— 227	92	3563	3062	— 501	86	3930	3800	— 130	97
c Transfer »	2864	2559	— 305	89	3127	3048	— 79	97	3570	3100	— 470	87
2. Local Administrations												
a Current Expenditure (b)	939	798	— 141	85	1150	1006	— 144	87	800	1112	+ 312	139
b Investment »	501	426	— 75	85	529	463	— 66	87	575	519	— 556	90
3 State Economic Enterprises Investment	1941	1692	— 249	87	2694	1805	— 889	67	2909	1950	— 959	67
4. Revolving Funds Investment	266	242	— 24	91	265	265	—	100	286	286	—	100
5. Total Public Expenditure	16695	15060	—1635	90	18659	16434	—2225	88	19870	18817	—1053	95
a Current	8099	7344	— 755	91	8481	7791	— 690	92	8600	9162	+ 562	107
b Investment	5732	5157	— 575	90	7051	5595	—1456	79	7700	6555	—1145	85
c. Transfer	2864	2559	— 305	89	3127	3048	— 79	97	3570	3100	— 470	87

(a) Targets of Annual Programs (b) Local administration's current expenditure includes transfers (c) Estimation.

Source : 1966 Annual Program, Table 452.

TABLE 9

CHANGES IN BUDGET APPROPRIATIONS (a) DURING THE FISCAL YEAR

In million TL. (current prices)

	Budget Appropriations (1)	Changes during the Fiscal Year (2)	Appropriations at the end of the Fiscal Year (3)	Changing in % (2)/(1)=(4)	Effective Expenditures (5)	Effective Expenditures over Appropriations (5)/(3) In %=(6)
1963						
Current Expenditure	8164	316	8480	3 8	7775	92
Investment	3937	545	4482	13.8	3950	88
Total	**12101**	**861**	**12962**	**7.1**	**11726**	**.90**
1964						
Current Expenditure	6640	468	7108	7 0	6430	.90
Investment	1812	185	1997	10 2	1701	85
Capital Investment and Transfers	5033	857	5890	17 0	5402	92
Total	**13485**	**1510**	**14995**	**11.1**	**13531**	**.90**
1965						
Current Expenditure (b)	7270	559	7829			
Investment	1836	204	2040			
Capital Endorsement and Transfers	5316	406	5722			
Total	**14422**	**1169**	**15591**			

(a) Annexed Budgets are excluded.
(b) 1965 figures reflect the situation at the end of October 1965.

Source: 1966 Annual Program, Table 451.

TABLE 10.1

THE ATTAINMENT OF THE PLAN PUBLIC REVENUE TARGETS
(1963 - 1965 Total)

In million TL. (current prices)

	Target (1)	Realization (2)	Difference (1)—(2) (3)	Realization in % (2)/(1) (4)
1 Tax Revenue	33278	28462	—4816	86
2 Other Public Revenues	3426	4252	+ 826	124
3 Savings Bonds	1909	1640	— 270	186
4 Counterpart Funds	4847	5307	+ 460	109
5 Funds of State Economic Enterprises	2929	2699	— 230	92
6 Local Administrations' Revenue	5124	4324	— 800	84
7. Funds from Unidentified Sources	1628	1582	— 46	97
Total	**53141**	**48265**	**—4876**	**91**

Source : 1966 Annual Program, from Table 450.

TABLE 10.2

THE ATTAINMENT OF THE PLAN PUBLIC REVENUE TARGETS

In million TL. (current prices)

	1963				1964				1965			
	Target (1)	Realization (2)	Difference (1)—(2) (3)	Realization in %(1)/(2) (4)	Target (1)	Realization (2)	Difference (1)—(2) (3)	Realization in %(1)/(2) (4)	Target (1)	Realization (2)	Difference (1)—(2) (3)	Realization in %(1)/(2) (4)
1. Tax Revenue	10010	8424	—1586	84	11186	9258	—1928	83	12082	10780	—1302	89
(% of GNP)	15 95	13 42	— 2 53	84	16 74	13 86	— 2 88	83	16 93	15 10	— 1 83	89
2. Other Public Revenues	1092	1433	+ 341	131	1142	1379	+ 237	121	1192	1440	+ 248	121
(% of GNP)	1 74	2 28	+ 0 54	131	1 71	2 06	+ 0 35	121	1 67	2 01	0 34	121
3. Savings Bonds	596	474	— 122	84	635	535	— 100	84	678	630	— 48	93
(% of GNP)	0 95	0 76	— 0 19	80	0 95	0 80	— 0 15	84	0 95	0 88	— 0 07	93
4. Counterpart Funds	1569	2063	+ 494	131	1737	1399	— 338	81	1541	1845	+ 304	119
(% of GNP)	2 50	3 29	+ 0 79	131	2 60	2 09	— 0 51	81	1 16	2 58	+ 0 42	119
5 Funds of State Economic Enterprises	747	816	+ 69	109	1062	1033	— 29	97	1120	850	— 270	76
(% of GNP)	1 19	1 30	+ 0 11	109	1 59	1 55	— 0 04	97	1 57	1 19	— 0 38	76
6. Local Administrations Revenue	1600	1224	— 376	77	1704	14 69	— 235	81	1820	1631	— 189	89
(% of GNP)	2 55	1 95	— 0 60	77	255	2 20	— 0 35	81	2 55	2 28	— 0 27	89
7. Funds from. Unidentified Sources	929	—	— 929	0	200	682	+ 482	340	499	900	+ 401	180
(% of GNP)	1 48	—	— 1 48	0	3 30	1 02	+ 0 72	340	0 70	1 26	+ 0 56	180
Total	16543	14434	—2109	87	17666	15755	—1911	89	18932	18076	— 856	95
(% of GNP)	26 36	2300	— 3 36	87	26 44	23 58	— 2 86	89	2653	25 33	— 1 20	95

TABLE 11.1

ATTAINMENT OF ANNUAL PROGRAMS' PUBLIC REVENUE TARGETS
(1963 - 1965 Total)

In million TL. (current prices)

	Program's target (1)	Realization (2)	Difference (1)—(2) (3)	Realization in %(2)/(1) (4)
1 General and Annexed Budgets	41883	38438	—3445	92
2 Local Administrations	4494	4324	— 170	96
3 State Economic Enterprises	4135	2699	—1436	65
4 Revolving Funds	817	793	— 24	97
Total	51329	46654	—5075	90

Source : 1966 Annual Program.

TABLE 11.2

ANNUAL PROGRAMS' PUBLIC REVENUE TARGETS

In million TL. (current prices)

	1963				1964				1965 (a)			
	Program's Target (1)	Realization (2)	Difference (3)	Realization in % (1)—(2) (4)	Program's Target (1)	Realization (2)	Difference (1)—(2) (3)	Realization in % (1)/(2) (4)	Program's Target (1)	Realization (2)	Difference (1)—(2) (3)	Realization in % (1)/(2) (4)
1 General and annexed Budgets	12563	11885	—678	95	14020	12213	—1807	87	15300	14340	— 960	93
2 Local Administration	1440	1224	—216	85	1679	1469	— 210	87	1375	1631	+ 256	119
3 State Economic Enterprises	856	816	— 40	95	1454	1033	— 421	71	1825	850	— 975	47
4 Revolving Funds	266	242	— 24	91	265	265	—	100	286	286	—	100
Total	15125	14167	—958	94	17418	14980	—2438	86	18786	17107	—1679	91

(a) First Estimations made in October 1965

Source : 1966 Annual Program, from Table 453 with correction

TABLE 12

YEARLY DECREASES IN GENERAL BUDGET REVENUES
(in percentages)

Current prices

	1962	1963	1964	1965 (a)
Tax Revenues	6 2	18 4	9 9	16 4
a Direct	—11 0	17 8	9 9	13 7
b Indirect	17 3	18 7	9.9	17 8
General Budget				
Revenues	10.8	28 7	2 8	17.3
General Budget Revenues, excluding counterpart funds	4.1	23.1	8 4	16.2

(a) Estimation

Source : 1966 Annual Program, Table 449

XII

SOME CRITICAL COMMENTS ON THE MONETARY ASPECT OF THE FIRST FIVE-YEAR PLAN

by
L. TENKER *

INTRODUCTION

The principal aims of a development plan are to increase the physical wealth of the country and to assure its more equal distribution among the citizens. Turkey's First Five-Year Plan is certainly not an exception to this generally accepted tenet of economic policy. While stressing the importance of real income and wealth, in accordance with this tenet, the planners usually leave monetary policy and the variables connected with money and credit either to the Annual Programs, or to the authorities responsible for administering monetary and fiscal policies. The first Turkish planners[1] followed the same pattern and did not, or could not, allocate much time and space to money and credit problems in the Plan.[2] This policy of

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1 The term «first planners» is used here to mean the first Undersecretary and Department Heads who organized and supervised the work for the Plan, and resigned together at the end of 1962.

2 In an informal discussion, Mr Torun, then the Undersecretary of the S P O, confirmed this basic impression.

postponement may be feasible for the plans of developed countries but in underdeveloped countries, as we shall see later, the plan should contain at least general directions on money supply, flow of funds, money and credit policy, and central bank policy.

In this paper, the monetary aspect of Turkey's First Five-Year Plan will be presented, and the result of implementation will be analysed (Section II) Some critical comments and suggestions will be made, in view of recent developments in the theory and policy of money (Section III). Finally, the conclusions, mainly containing some proposals, will be put forward.

I. MONETARY ASPECT OF TURKEY's FIRST FIVE-YEAR PLAN (1963 - 1967)

1. The Over-all Treatment of Money in the Plan[3]

No independent and specific sections were assigned to monetary equilibrium, monetary policy or banking policy in Turkey's First Five-Year Plan Only credit policy received a brief treatment in three pages, in a rather classical and qualitative way.[4] The financing of the Plan was mainly considered in physical terms, and providing the resources necessary to public outlays for both investment and current expenditures was assigned first priority. Nevertheless, some qualitative remarks and provisions can be found in the Plan.[5] Since they are widely dispersed, however, an orderly presentation of the more important among these should precede analytical comments.

a. Provisions related to fiscal and monetary policies.

«**Fiscal and monetary policies will prevent the inflationary or deflationary tendencies that could distort full employment or the optimum allocation of resources.** Public investments will be financed through taxes, fees, surpluses of public enterprises, and funds secured from external sources. The necessary and feasible re-organization measures will be taken in order to assure additional domestic resources » (p 39; italics mine).

«Money and credit policies will be determined in such a way as to make possible the financing of private sector invest-

3 References are to the First Five-Year Development Plan, 1963 - 1967, Turkish Republic, The Prime Ministry, State Planning Organization, Ankara, 1963.

4 The Plan, op. cit., pp 452 - 454

5 Ibid., pp 435 - 438, 448 - 451, etc

ments through the savings of individuals and institutions. Investment estimates for the private sector are based on the savings-creating capacity of this sector » (p. 39).

b. Provisions related to the implementation of economic policies.

«The bases of the implementation policy are: (1) establishment of equilibrium between macro-economic values as required by the plan targets, and (2) the adoption of special measures to supplement the allocating function of the price mechanism.» (p. 433).

«Except for those budgetary expenditures where the basic decision is not one of price, the price mechanism will regulate the allocation of resources to various expenditure fields.» (p. 433).

«The principles outlined below will govern the financing of the plan· a Non-inflationary Financing.

Investments will be financed from real savings and **deficit financing will not be resorted to during the plan period.** There will be equality between annual savings and annual investments» (p 435; Italics mine)

«Attainment of the proposed level of private investment depends largely on the ability to mobilize private savings to the extent required. Investments (private sector) will be based, on the one hand, on self-financing possibilities and the savings to be obtained from the capital market, and sustained on the other hand by the credit funds of various banks and credit institutions» (p. 445)

Further, commenting on the **capital market,** the Plan says :

«One of the most important institutions for directing savings toward investments in advanced countries is the capital market A capital market that makes it possible for forward-looking entrepreneurs to use accumulated small savings must be established as soon as possible Both with this purpose and that of ensuring that private enterprise operates and develops on more rational lines, the formation of joint stock companies will be encouraged, a certified public accounting system will be set up, and the commercial code and tax system will be revised and reviewed so as to establish an operative and expanding capital market» (p. 446).

With regard to **credit policy** two main principles have been adopted (p 452): (1) «A non-inflationary credit policy will be followed.» (2) «Optimum allocation of credits within the economy will be secured »

Finally, among the resources for public outlays during the Plan period, the «Funds from Unidentified Sources» (cf Table 53 of the Plan, p 113) should be discussed very briefly in order to present a more accurate picture on the monetary aspect of the Plan This source of public revenue ranges from 180 million TL for 1964 (the lowest) up to 1,110 million TL for 1967 (the highest), and totals 3,470 million in five years, i e almost 4 per cent of all public outlays. On page 114 of the Plan these «unidentified sources» are specified further as «new funds to be generated by the State Economic Enterprises as a result of reorganization and the price policy to be adopted, from the higher fees to be charged by agencies included in annexed budgets or **from the issue of domestic loans.**» It may be conjectured that these «unidentified sources» constitute an implicit acceptance of deficit financing, rejected categorically in other places.

The foregoing quotations include all the important comments of the Plan on the subject of money and monetary policy. The basic argument lying behind these comments would seem to run as follows: Monetary policy was responsible for the past inflations in Turkey.[6] For this reason, no new money will be created by the Central Bank. Monetary policy is a short-term tool for price-stabilization; therefore, it will be resorted to in the Annual Programs only. The **ex-ante** saving-investment equality will be secured and maintained, and deficit financing will not be employed.[7] Leaving further analysis and comments on the monetary aspect of the Plan to Section III, let us briefly examine what has actually happened during the years (1963 - 1965) of implementation

2. The Implementation : 1963 - 1965

Turkish planning and monetary authorities started the Plan implementation with a great deal of caution against inflation. Observing the decrease in the liquidity preference of the public in 1962,

6 For the Plan analysis of the pre-1960 inflation, cf pp 18 - 22 The analysis seems to carry a quantity-theory bias

7 It should be remarked, however, that another plan document, «The Targets and Strategy of the Plan», which was issued before the main document with the aim of guiding the plan preparations, and is affixed to it, does not prohibit deficit financing altogether, but tries to limit it to the actual needs of the economy This point was brought to my attention by Mr Torun

which had increased considerably in 1960 and 1961, the S.P.O , in the 1963 Annual Program, reiterated the Plan principle of anti-inflationary money and credit policy and invited attention to the possibility of a rapid increase in the aggregate demand due to dishoarding [8]

In conformity with the decision of the first planners to relegate the details of monetary policy to the Annual Programs, a separate section of seven pages was allocated in the 1963 Program to the treatment of money, credit and price policies. Here, after a qualitative analysis of the monetary situation in 1962, the main principles to be followed during 1963 in the fields of public sector — Central Bank relations, interest rates, distribution of credits among sectors, and the capital market, were stated. In Treasury — Central Bank relations, the Program permitted only short-term advances for budget implementation, and as for the credits to State Economic Enterprises, only those enterprises which had been previously permitted to use this facility for their seasonal raw material purchases, such as the Soil Products Office, Sugar Industry, and Sumerbank, would be able to continue to do so

In spite of these provisions which clearly exclude deficit financing, Central Bank credits increased by 1 327 million in 1963, with 986 million of this increase going to the public sector, (and constituting the main part of the deficit financing of the public sector), and the rest to the private sector. Under the effect of these outright credits from the Central Bank, the amount of paper money increased by 459 million (or almost 9 per cent) by the end of 1963. The rest of the deficit financing supported either the increments in bank or the foreign exchange counterpart for imports over exports. The important point about this divergence from the Plan and Program principle was that it was the Treasury itself which drew and used up the main portion (495 million) of these Central Bank credits to the public sector [9] On the other hand, while the money supply increased by 1.203 million TL , i e , 11 per cent, in 1963 over 1962, the wholesale price index recorded an increase of only 4 3 per cent, implying the availability of some room — though very small — for deficit financing

The publication of the 1964 Annual Program coincided with the peak of increasing economic activity which had started in the second

8 **1963 Yılı Programı**, State Planning Organization, Ankara, March 1963, p 271

9 **Aylık Bülten No. 7**, Türkiye Cumhuriyeti Merkez Bankası A Ş , Ankara 1966, pp 22 - 25

half of 1962. Following almost the same analytical lines as those in the 1963 Program, the money and credit policy section of the 1964 Program sternly warned the monetary authorities about the pending inflation.[10] The Program established a new measure for increases in the money supply, stating that the rate of this increase should not exceed the growth rate of GNP, and consequently giving another proof of the inclination of Turkish planners toward the quantity theory of money and its oversimplified explanation of complex monetary phenomena. Again, this impracticable principle was not followed during the implementation of the Program, the money supply increased by 15 per cent, while GNP rose by 4 3 per cent, and the wholesale price index fell by 0 7 per cent. The Central Bank credits were augmented to the extent of 989 million TL in 1964. In the first half of 1964, there was a demand for more money and credit on the market, and businessmen complained of the lack of adequate demand and sales The studies of the S P O. indicated that the inadequate supply of money and and credit, caused by the restrictions on Central Bank credits, was the main source of insufficient aggregate demand. In fact, fearing inflation, the Central Bank authorities had started to restrict the growth of Central Bank credits toward the end of 1963, and had ceased to issue new credits altogether in the first half of 1964 The index of the total Central Bank credits was as follows ·

	General Index	Chain Index
December 31, 1961	100 0	100 0
June 30, 1962	107 0	107 0
December 31, 1962	158 0	147 3[11]
June 30, 1963	220 0	140 0[11]
December 31, 1963	272 0	124 0
June 30, 1964	271 0	99 6

The slowing down of the rate of increase after the second half of 1963 is clearly perceptible. This restriction in Central Bank credits had immediate repercussions on commercial bank credits; the rate of expansion of commercial bank credits declined in 1963; the increase in credits stopped, and in fact a slight fall (1 per cent) in

10 **1964 Yılı Programı**, The State Planning Organization, Ankara, Nov 1963, pp 285 - 287

11 The reason for the high rates of increase in late 1962 and early 1963 was the consolidation of Central Bank credits to public sector until the end of 1960 under Law 154 and their transfer to an account in the Central Bank of Turkey

total credits was recorded in the first half of 1964.[12] On the other hand, there were no fiscal policy measures to compensate for these contractions. Thus, business faced an expanding GNP, but declining money and credits in the first half of 1964 The result was a contraction of economic activity that coincided with the slack season which usually starts at the end of February and goes on until September. Paradoxically, this conjunction of the two contractions made the identification of the deflationary tendency more difficult for the planners However, in June 1966, the High Planning Council, after discussing a report of the S.P.O., decided that there was a deflationary tendency in the economy, and some monetary policy measures to expand money and credit, including Central Bank credits, were adopted. The rate of growth actually realized in 1964 was 4.3 per cent, as against the 7 per cent Plan target. Although a significant part of the difference between the planned and realized growth rates may be explained by the fall in the growth rate of agricultural income, the rest is certainly to be attributed to the restrictive credit policy of the Central Bank towards the end of 1963 and in the early months of 1964.

Having experienced this short-lived deflation, the S.P.O. changed its attitude towards monetary policy during the 1965 Annual Program preparations. The current money and credit situation was analyzed more systematically and a dynamic monetary policy was suggested The following quotation from the 1965 Annual Program shows the change quite clearly.[13]

> «The main target during the implementation of monetary policy will be to enable and **facilitate the realization of the growth rate envisaged in the Plan.** While attaining this target, the maintenance of price stabilization, another main principle, should also be considered. (Italics mine).
>
> «In order to implement this monetary policy in a way that will permit the creation of the necessary conditions for the attainment of the planned growth-rate, all relevant factors which may affect the money supply, such as monetization, population increase, liquidity preference, industrialization, seasonal movements, will be considered A balanced distribution of

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12 For statistics used in these paragraphs cf Tables 233 - 240 in the **1964 Annual Program**, pp 340 - 348

13 **1965 Yılı Programı**, The State Planning Organization, Ankara 1964 p. 349

the Central Bank credits between public and private sectors will also be secured.»

Thus, giving first priority to a growth-orientated monetary policy and envisaging the adjustments in the money supply in function of a set of more relevant variables, the 1965 Annual Program brought a new outlook to the monetary problems. However, this Program also failed to consider deficit financing explicitly.

The 1965 Annual Program refrained from any suggestions on restricting the rate of the increase in money supply, or credits, to certain rates; this decision was left to the monetary authorities. The results of 1965 together with those of the two preceding plan-years are presented in **Table 1.**

TABLE 1

RESULTS OF MONETARY POLICY IN THE FIRST THREE YEARS OF THE PLAN

In percentages

Year	Planned Growth Rate in GNP (1)	Actual Growth Rate in GNP (2)	Rate of Increase in Money Supply (a) (3)	(4)	Rate of Increase in Prices (b) (5)
1963	7	7 5	11 0	6 9	+4 2
1964	7	4 3	15.1	16 4	—0 2
1965	7	4 9	14 0	10 4	+8 4

(a) Column (3) includes demand deposits, column (4) excludes them
(b) Wholesale price index

Source: 1966 Annual Program, S P.O, pp 7, 613, Monthly Bulletin of the Central Bank, July 1966, Monthly Bulletin of Statistics, SIS, May 1966

The 1963 and 1965 figures for the rates of increase in GNP, money supply, and prices, imply a strong correlation between the additional money supply over GNP increase and recorded rises in prices. Thus, some quantity theorists have been led to the argument that these price increases can only be explained by the increases in money supply However, the 1964 figures (4 3 per cent increase in GNP and 16 per cent increase in the money supply, coupled with a 0.7 per cent decrease in prices) seem to disprove the quantity theory, and show, at any rate, the necessity of a more generally applicable theory of money If we take money supply in a narrow sense (Column 4), then the 1963 and 1965 correlations between money and prices become even less meaningful.

When the main factors affecting the money supply are studied, the Central Bank credits are identified as the principal source of money supply, since the other important factor, i.e reserve position of the Central Bank, has not recorded any remarkable upward change during the period studied.[14] **Table 2** shows the increases in money supply, Central Bank credits, and their components, in both absolute and percentage terms.

The table shows that in 1963 Central Bank credits accounted for the main part of the expansion of money supply. In 1964, on the other hand, the Central Bank credits failed to meet the increasing liquidity demand of the economy, a trend accompanied by the slowdown in the rate of increase of demand deposits. In 1965 a new monetary development not envisaged in the Plan was witnessed in the economy The remittances of the Turkish workers abroad rose sharply from 8 1 million dollars in 1964 to 70 million dollars in 1965 These remittances enabled commercial banks to increase their credits to business Thus, in spite of the low rate of increase in money in circulation, the total money supply rose by 17.4 per cent. In 1965 the new Central Bank credits were completely allocated to deficit financing of the public sector; however, the rate of increase in the credits was much smaller than the increases in the two preceding years. This cautious policy of the Central Bank with regard to credits to the private sector is certainly justifiable in view of the increased credit means of the commercial banks due to the workers' remittances

Table 3 shows the distribution of the Central Bank credits among the public sector agencies

As can be seen from the table, contrary to the Plan principles, the Treasury continued to borrow from the Central Bank through various channels, though at a slowing pace (cf. column 1). The main instrument used by the Treasury was the so-called «short-term advances» When the debts of the Treasury and the State Economic Enterprises were consolidated in 1961, a law was passed to prohibit this short-term source of finance from becoming one of

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14 In Turkey, under the strict foreign exchange control system, all reserves in gold and foreign currencies are in the hands of the Central Bank The commercial banks' reserve positions are negligible According to the bi-monthly bulletin of statistics of the S P O, the net reserve position of the Central Bank was +86 2 million dollars at the end of 1962 and +46 1, +51 0, and +62 8 at the ends of 1963, 1964, and 1965 respectively

TABLE 2

MONEY SUPPLY AND CENTRAL BANK CREDITS, 1963 - 1965

In million TL.

Date	Money Supply					Bank Credits		
	Paper and Coin (1)	Bank Money (a) (2)	Total (3)	Demand Deposits (4)	Total (5)	To public sector (1)	To private sector (2)	Total (3)
31 Dec. 1962	4,527	1,950	6,477	4,487	10,964	1,023	801	1,824
31 Dec. 1963	4,926	1,999	6,925	5,242	12,167	2,009	1,142	3,151
31 Dec 1964	5,835	2,230	8,065	5,934	13,999	2,652	1,488	4,140
31 Dec 1965	6,326	2,580	8,906	7,528	16,434	3,184	1,481	4,665
Annual Changes								In million TL.
1963	399	49	448	755	1,203	986	341	1,327
1964	909	231	1,140	692	1,832	643	346	989
1965	491	350	841	1,594	2,435	532	—7	525
Annual Changes								In percentages
1963	8 3	2 5	6 9	16 8	11 0	96 3	42 6	72 6
1964	18 5	11 6	16 4	13 2	15 1	32 0	30 3	31 4
1965	8 5	15 7	10 4	26 9	17 4	20 1	—0 5	12 7

(a) Bank money was defined by the Central Bank until 1964 as the total of commercial sight deposits in banks and some special deposits in the Central Bank

Source : **Aylık Bülten** (Monthly Bulletin), No 7, Türkiye Cumhuriyeti Merkez Bankası A Ş , Ankara, 1966, pp 22 - 25 and 44.

TABLE 3

CENTRAL BANK CREDITS TO THE PUBLIC SECTOR, 1963 - 1965

In million TL.

Date	Total (Treasury) (1)	Short-term Advances (2)	Advance against gold (3)	Bank liquidation Fund (a) (4)	Advance against Notes (5)	Monopolies Administr. (6)	State Ec. Enterpr. (7)	Total (1) + (7) (8)
31 Dec. 62	393	309	—	54	30	—	630	1,023
31 Dec. 63	888	392	—	73	348	75	1,121	2,009
31 Dec. 64	1,508	603	118	118	348	460	1,144	2,652
31 Dec 65	2,217	1,136	205	205	348	423	967	3,184
Annual Changes								In million TL.
1963	495	83	—	19	318	75	491	986
1964	620	211	104	45	—	385	23	643
1965	709	533	1	87	—	—37	—177	532
Annual Changes								In percentages
1963	126 0	26 9	—	35 1	—	—	77 9	96 3
1964	69 8	53 8	—	61 6	—	—	2 1	32 0
1965	47 0	88 3	—	73 7	—	—	—15 5	20 1

(a) An institution established through Law 153 in order to fulfill obligations of banks officially liquidated.

Source : Same as for Table 2

permanent borrowing for the Treasury.[15] Other instruments are extraordinary or limited facilities, and cannot be utilized for steadily increasing loans to the Treasury. With the exception of short-term advances, there is almost no possibility for the Treasury to borrow regularly from the Central Bank. In addition to these limitations, there is the fact that open market operations, which may constitute an indirect way of Treasury financing, are not practiced in Turkey. Under these conditions, the increases in Treasury borrowings are bound to be limited to approximately 150 - 200 million TL. annually.

The remaining channel for deficit financing in the public sector is constituted by the loans to the State Economic Enterprises. Table 4 indicates the distribution of the Central Bank Credits to these enterprises, and their development through 1962 - 1965.

TABLE 4

CENTRAL BANK CREDITS TO THE THE STATE ECONOMIC ENTERPRISES

In million TL.

Dates	Sümerbank (Textile) (1)	Turkish Real Estate Bank (2)	Soil Products Office		Sugar Industry (5)	Total (6)
			Domestic Purchases (3)	c.c.c. Purchases (4)		
31 Dec. 1962	49	94	250	66	171	630
31 Dec. 1963	50	94	515	353	109	1 121
31 Dec. 1964	35	94	739	117	159	1 144
31 Dec. 1965	20	94	525	44	284	967
Annual Changes :						In million TL.
1963	+ 1	—	+265	+287	— 62	+491
1964	—15	—	+224	—236	+ 50	+ 23
1965	—15	—	—214	-- 73	+125	—177

Source : Same as for Table 2

The Plan principle regarding the Central Bank loans to the State Economic Enterprises is to restrict these loans to those needed for seasonal raw material purchases and (in the case of the Soil Products Office) stock purchases, either in domestic or foreign (mainly American) markets. Further, the Central Bank is bound by some international agreements not to resort to this source of

15 Law 260 dated Feb 24, 1961, fixed the ceiling for the short-term advances to the Treasury as 5 per cent of the General Budget expenditures, and required the Treasury to reimburse these advances by the end of the fiscal year Later, by Law No 583, dated April 21, 1965, this limit was raised from 5 per cent to 10 per cent of the General Budget expenditures, and the condition for reimbursement by the end of the fiscal year was repealed

finance. With the exception of the loans to the Sugar Industry — which have increased considerably in the last two years and reached an all-time high level of 434 million TL. in June 1966 — this source of deficit financing for the public sector seems to be under the control of the monetary authorities.

In view of the disinclination of the Turkish monetary authorities to utilize the Central Bank credits for financing the private sector, and of the foregoing limitations — mostly legal — for credits to the public sector, one might wonder how the supply is expected to increase in Turkey to accommodate the increasing national income, monetization, industrialization, and taxes. If no explicit principles and measures correcting the shortcomings of the monetary aspects of the Plan are introduced in the Second Five-Year Plan, the Turkish economy may face a deflationary situation similar to the one experienced in the first half of 1964. It is especially important that a deficit financing practice commensurate with the needs of the economy be launched and implemented, since during the second plan period no important changes in the inflow of foreign exchange are to be expected.

In short, the implementation of the Plan through the Annual Programs clearly indicates the inconsistencies and shortcomings of the monetary aspects of the Plan. These may be summed up as follows :

a) The quantity theory of money, which seems to underlie the monetary view of the Plan, is not applicable.

b) There was a serious lack of studies to establish monetary equilibrium in the economy, based on an analysis of the past flow of funds and the inventory of financial assets.

c) Deficit financing was necessary and in practice used to a considerable extent, even though it had been forbidden by the Plan.

d) Undue restrictions of Central Bank credits have sometimes been as harmful as their unlimited utilization.

e) The pre-Keynesian Central Bank legislation has precluded more effective implementation of counter-cyclical monetary policy during the 1964 deflation.

f) A more systematic treatment of money, giving first priority to facilitating the development efforts, was entirely neglected in the Plan.

We shall finish this section on the implementation of monetary policy during the Plan period, with a few remarks on credit policy.

In the Plan there are no broad and up-to-date credit policy suggestions. The Plan groups credits in three categories (short, medium and long-term), and tries to establish new credit agencies in addition to the existing over-crowded field of banking in Turkey. No effort is made to classify credits along the lines suggested by contemporary theory, or to control the activities of banks in the light of the Plan objectives. The three-year implementation has not brought about any improvements to the already confused and irrational credit situation in Turkey The big commercial banks have continued their independent credit policies as they liked, and bank failures have increased in number, although some of these failures were due to «bad debts» prior to the Plan period.

What was in fact needed with regard to credit policy was the overall treatment of credits within the framework of the general flow-of-funds system, together with an effort for the orientation of new credits to those sectors which were of critical importance for the Plan's success.

We now go on to discuss in greater detail the shortcomings of the Plan with regard to monetary policy, and some possible remedies.

II. SOME CRITICAL COMMENTS AND SUGGESTIONS

There are some writers who believe that «the role of a monetary policy in less-developed countries is very modest».[16] These words indicate either sheer ignorance of the literature on money and growth problems in these countries, or the exaggerated influence of fiscal policy supporters. Indeed, after the Great Depression, many economists, observing the ineffective and dispersed monetary measures taken by puzzled governments without any coordination with fiscal policy, developed a thesis about the ineffectiveness of monetary policy, and became addicts of fiscal policy. Such a discrimination between monetary and fiscal policy, and the negligence of the former for the sake of the latter is like a preference for demand over supply in price theory What is more, in underdeveloped countries, monetary policy is not only as important as fiscal policy, but in fact it has to assume new responsibilities in transforming the primitive, underdeveloped economy into an advanced one. Among these new responsibilities, the facilitation of development efforts, the organiza-

16 Such a view was advanced by Dr G V Papi (among others), Rector of the University of Rome, in his paper «**Monetary and Real Problems of Developing Countries**», presented to the Rehovoth Conference on Fiscal and Monetary Problems in Developing Countries.

tion of money and capital markets, and the spread of the banking system over the non-monetized sector, are of vital importance.

If we had not known the genuine efforts made by Turkish planners to conduct detailed studies related to money, credit and interest, In fact, however, it was attempted to investigate the monetary problems of Turkey,[17] but without much success. The basic reasons for this failure would seem to be a shortage of time and a shortage of experienced research-workers. When one considers that only two detailed studies on monetary and banking systems have been produced since 1950 (viz the «Radcliffe Report» in England and the Report of the C.M.C. in the U.S), one cannot really blame the Turkish planners for this shortcoming.

In the following paragraphs, we shall try to indicate the basic shortcomings of the Turkish Plan with regard to modern monetary policy tools in some detail, and propose some remedies for the future.

1. Lack of a Monetary Model and Equilibrium

In a mixed economy, money is the dominant factor for carrying out the decisions of consumers, savers, investors, and of the Government There is a counter-movement of money for each physical transaction of goods and services, i.e , for production, sales, consumption, or investment Therefore, if these monetary transactions in counter-direction to the movements of goods and services are systematically recorded and accounted as done in flow-of-funds accounting, it becomes possible to build a monetary model of the country's economic activity. In under-developed economies these recordings are necessarily incomplete, due to the existence of marginally - monetized or non-monetized sectors. Nevertheless, this structural deficiency can be overcome through sampling, or through certain reasonable assumptions. After such flows-of-funds have been established for each year, then the series of monetary variables, and a monetary model working in the opposite direction of the physical model, can be constructed The complexities and difficulties involved in constructing a complete monetary model are clear. However, the model may be improved gradually; as a start, it can be worked out for separate sections of the economy, such as savings, Government, investment, consumption, State Economic Enterprises, rest of the

17 We should mention here the un-aided research work of Prof Östlind of Sweden, working as a U.N. expert for the S P.O., and the pre-project by Prof. Okyar, on money and banking, which could not be put into implementation.

world, etc., and then combined together. Such a systematic treatment of money may disclose the inconsistencies, if any, in the physical targets of sector programs or in fiscal and credit policy decisions. The ultimate aim of these studies should be to establish the monetary equilibrium, parallel to the physical equilibrium of the Plan. After a complete flow-of-funds system is built, various dynamic factors, such as deficit financing, debt-refunding, creation of credits, etc. can also be introduced into the model

The lack of such a model has created many problems during the first Plan period.[18] Since credits to the private sector were on an arbitary basis, the estimates concerning the targets for private investments amounted to no more than speculation. The Plan also required new taxation efforts and price adjustments (mainly upward) for the goods and services produced by the State Economic Enterprises. What the effect of new taxes and price rises would be on investible funds of the private sector, or even of the public sector, was another important question the answer to which could not be predicted

Thus, one may justifiably argue that the physical model of Turkey's Five - Year Plan has remained incomplete without a flow - of - funds system that would eventually lead to the establishment of a monetary equilibrium, and finally, a monetary model

2. Lack of Modern Monetary Principles

The Radcliffe and C.M C Reports and numerous articles published in the 1950's and 60's have illuminated the monetary aspects of advanced economies to a great extent. Many of the findings of these researches can also be directly applied to the underdeveloped countries. On the other hand, there is also a considerably important literature on money in underdeveloped countries as such. The Plan analyses related to monetary policy, however, imply either unawareness of these researches or negligence of them. The following points are some examples of such delays with respect to modern monetary thinking.

a. Means of monetary policy. — As pointed out earlier in this paper, the policy means in the hands of monetary authorities are very limited indeed. Open market operations, more flexible reserve requirements, and a growth - oriented rediscount policy, are urgently needed in

18 This important deficiency of the Plan was first pointed out by Prof Gasthon, an Israeli economist, in a letter to Mr Refet Erim, then an expert of the S P O, in 1964

Turkey [19]. A better coordination between the Central Bank and the banking system (normal suasion) should also be achieved.

b. Gold policy. — The U.S.A and England have prohibited the free sale and circulation of gold since the 1930's. Recent international studies show the existence of an important movement of gold — both newly mined and sold by Russia — to the underdeveloped economies to satisfy the «hoarding» demands in these countries. For example, the 1964 gold supply, which was around 2 000 million dollars, was mainly used for hoarding, especially in underdeveloped countries. Turkey is certainly one of these gold hoarding countries; and, since this «hoarded» gold is paid for either by goods smuggled out of Turkey, or by foreign exchange earned but not brought in — through various devices — this hoarding is one of the main leakage factors in Turkish foreign exchange earnings.

The Plan should have paid attention to this deficiency of the Turkish monetary system, i e , free sales of gold, and should have introduced some measures or provisions for a more detailed study of the subject.

c. Debt servicing. — Related to fiscal policy, debt servicing is of a rather primitive nature in Turkey The Ministry of Finance and the Central Bank should have been assigned the joint task of improving the Treasury operation and the refunding and defunding of public debts, in accordance with the requirements of the Plan To this end, the reorganization and improvement of the money market should also have been envisaged by the Plan.

d. Improvements in foreign exchange operations. — The Central Bank has been applying the same classical foreign exchange system in Turkey since almost 1940 Especially the letter of credit system, which is the principal financing medium for imports, has been quite harmful since it binds the foreign exchange resources much in advance of actual imports Further, costly foreign credits are still used. The Plan should have charged the Central Bank and the Ministry of Finance with the task of employing a dynamic foreign exchange policy, serving the interests of the country in a more efficient manner.

3. Unjustified Fear of Deficit Financing

In most underdeveloped countries, especially in those which

19 Notably, among the underdeveloped countries' monetary authorities, the Reserve Bank of India utilizes open market operations Although some limitations of its use exist in the underdeveloped countries, its development in even a restricted manner would seem desirable.

have undertaken ambitious development plans, foreign exchange is in short supply. Given this condition, only one source remains available to the monetary authorities for increasing the money supply: namely the Central Bank credits Since increased Government spending (due to the development plans), for both investments and current expenditures, has a tendency to increase deposits in commercial banks, the private investors will also have some increased resources, either from commercial banks or from their own increased earnings. Under these circumstances, the best method for increasing the money supply commensurately with the needs of the economy is the financing of Government expenditures through the Central Bank credits, i e, deficit financing. As we have seen above, however, the Plan has not included this method among the acceptable tools of monetary policy, although in fact it has been used.

It should be admitted that at present, public opinion is sensitive to outright advances from the Central Bank to the Treasury or to the State Economic Enterprises; thus, such financing may easily cause an increase in the speed of circulation of the existing money. However, if the principle is made known to the public in advance and is applied to a moderate extent, this fear may be overcome. Besides, open market operations used intelligently would provide an indirect means of deficit financing without alarming the public, as in many developed countries.

4. Lack of Banking Policy

Banking in Turkey has been left to develop in a disparate and confused manner, under the Central Bank and Banking Laws. No acceptable economic principles have been observed during the preparation, in the 1950's, of the draft of Banking Law 7129. The Central Bank Law of the early 1930's, on the other hand, is a good example of classical monetary policy. The Plan has not drawn attention to these important deficiencies in monetary legislation, which render the implementation of modern monetary policy measures almost impossible One can say that with respect to banking policy, the Plan should have required the observance of the following basic principles :

a) The preparation of new and up-to-date Central Bank legislation, emphasizing a growth-oriented money and credit policy.

b) The amendment of the Banking Law, in order to prevent the proliferation of small banks, the number of which is already in excess of the needs of the economy, and to reduce bank failures.

c) The abolition of the Banks Liquidation Fund and the introduction of a deposit insurance system.

d) The encouragement of branch banking and the supervision of banks by the Central Bank, in order to direct bank credits to the desired areas.

III. CONCLUSIONS

In this analysis, we have attempted to show the main shortcomings and inconsistencies in Turkey's First Five-Year Plan, with regard to money and monetary subjects. It cannot be claimed that the criticism and the points advanced in this analysis are wholly original contributions. It is also possible that some of them may not be acceptable to the monetary authorities, or to the planners. However, we feel that we have shown the necessity and plausibility of certain improvements in the theoretical tools and in the practices actually encountered in Turkish monetary policy In closing, we should like to point out the basic practical measures which seem to be necessary to bring about these and other similar improvements.

1. Measures related to the Organization of Research on Monetary Problems.[20]

Before attempting any far-reaching reforms, a systematic study of all the problems is a must. In this complex field of the economy, the organization of the research and the selection of the research workers is probably more important than the actual research iteelf. We feel that this research should be organized within the S.P.O. and the Chairman or the Secretary General in charge should be empowered by the Prime Ministry to conduct hearings at any level of the Administration and to require information from any public agencies deemed relevant. The study group should include members from the S P O., the Ministry of Finance, the Central Bank, the banking system, the industrial and agricultural communities, and should not exceed ten people. A Secretary General with adequate staff from the S.P.O and/or the Central Bank, and sufficient funds, should be provided for the group Further, the commission should be able to hire the services of an adequate number of research workers, professional economists, and, if necessary, foreign monetary economists. The research should cover the field of money and credit and related areas, and end up with a comprehensive report and supporting paper.

20 The organization and procedure suggested here is basically along the lines of the one adopted for the Radcliffe Commission's inquiry, with obvious modifications

2. Measures related to the Development of Monetary Statistics

Reliable monetary policy decisions, as well as other economic policies, can only be based on accurate and timely statistics. Since most of the monetary statistics originate in banks, which have daily recorded accounts, the main improvement needed in this field would seem to relate to the procedure of data collection and processing [21]

3. Measures related to the Establishment of Flow - of - Funds Accounting

Flow - of - funds accounting and analyses are justly attracting the increasing attention of the Central Banks and of the agencies responsible for national income statistics We have already dwelt on their merits and possibilities in earlier sections.

The flow - of - funds accounting should be undertaken by the Central Bank of Turkey Some already experienced central bankers could be rapidly trained for this purpose, with the aid of foreign experts As suggested earlier, the accounting system may start from a relatively simple matrix and be developed later. It should, however, be a **continuing concern** of the Central Bank Research Division, and its ultimate aim should be, as stressed earlier, the construction of a financial assets table and a detailed flow - of - funds system for Turkey.

4. Legislative Action

New Central Bank legislation along the lines of modern developments in the theory and policy of money should be given first priority. Through this legislation, the Central Bank should be nationalized.[22] The Banking Law should also be amended to reclassify the deposits in terms of demand and time deposits, to limit the number of banks, to encourage branch banking, and to establish a deposit insurance system

This is, by no means, an exhaustive list of the measures and actions required in the field of money. Indeed, the foregoing proposals are nothing more than indications concerning initial steps, since the main principles, targets, and actions, can only be decided upon after a careful study of the Turkish money and credit system

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21 For a more detailed discussion of this subject, cf L Tenker, paper presented to the Inter-university Statistics Seminar State Statistics Institute, Ankara, September 22 - 23, 1966

22 The «independence» of the Central Bank is an idea of the 1930's and has no applicability in present - day circumstances The Central Bank is as much a public agency as the Ministry of Finance

XIII

FOREIGN ECONOMIC RELATIONS IN THE PLAN

by
H. ÇETİN *

INTRODUCTION

The Development Plan objective as regards the balance of payments, consists in eliminating the current account deficit within a perspective period of 15 years

The target will be approached with the implementation of the measures in the First Five - Year Plan, and it is estimated that towards the end of the Second Five - Year Plan period there will be no further need for recourse to any extraordinary foreign aid Thereafter, it is expected that increases in the foreign private capital movements and bank credits will suffice for the continuation of the development effort, so that at the end of the 15 - year period, equilibrium will have been reached in the balance of current account.

As is the case with most underdeveloped countries, in Turkey the foreign trade situation has a very important, if not decisive, influence on the development effort. On the other hand, it is a generally accepted fact that a rapid and continuous increase in **per capita** income can only be based on a corresponding increase of the share of industry in the Gross National Product.

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Since the necessity of industrialization is recognized in the Turkish Development Plan, a combined strategy has been accepted, taking into account what can be called «industrialization for the foreign market», as well as «industrialization for the local market», and the Plan points out the necessity of carrying out export promotion and import substitution in close relationship with one another. The measures necessary in these fields, if the foreign trade targets are to be attained, can be outlined as follows :

1. Export Promotion

In order to increase the export income, which has more or less stagnated during the period prior to the Plan, the composition of exports should be changed in such a way as to increase the share of industrial goods in total exports. Alongside of general-purpose measures such as improvements in advertising, standardization, and packing methods, the Plan also provides for more specific measures, destined to increase the export of manufactured goods, such as special credits for exporters and the reimbursement of indirect taxes for exported products.

2. Import Substitution

The fact that underdeveloped countries encounter many difficulties in the effort to promote their exports, especially with respect to the demand situation for their traditional export goods, renders import substitution relatively more attractive for such countries. Accordingly, the Plan places relatively more emphasis on import substitution and the realization of import savings.

The Plan admits the use of import quotas and other restrictive measures as auxiliary means of ensuring the desired import substitution While the import of investment goods is facilitated in many ways, there are numerous checks on the import of consumption goods, and the objectives of import substitution are very closely kept in mind.

3. Invisible Items

Another important long-term target is to reverse the unfavourable balance of invisible transactions, which has important repercussions on the balance of current account. For this reason, the Plan attaches special importance to measures related to such potentially income - earning sectors as tourism.

In what follows we shall review, first of all, the Plan projections related to the balance of payments, and then the foreign aid requirements envisaged in the Plan and the results of the implementation of the first few years.

I. THE BALANCE OF PAYMENTS PROJECTIONS IN THE PLAN

1. Import Estimates

For purposes of calculating the import requirements in the Plan period, a distinction was made between capital goods, consumer goods, and raw materials. Separate estimates were made for these three groups of imports. This method is one that is used quite generally. The general relationship between National Income and total imports was not used, since it was considered that the quantitative limitations on imports detracted significantly from the reliability of this estimate for predicitive purposes.

a. **Imports of capital goods.** — It was assumed that the volume of capital goods imports for a year is a function of the investments for that period The percentage share of capital goods imports in total investments was calculated for the available pre-plan time series. The average import coefficient of investments thus derived was multiplied by the total amount of investments that would be necessary to provide a 7 per cent rate of growth annually, to give the total amount of investment goods imports needed. This is what the Plan calls «normal gross imports». The «net import requirements» were calculated by deducting the expected annual import substitution figures for the Plan period.

These estimates, made at the macro-level, were subsequently compared with the sectoral projections obtained in a similar manner, and corrections were made wherever necessary.

b. **Imports of raw materials.** — It was assumed that the need for the import of raw materials is a function of the increase of production in the manufacturing sector. In this way, the need for raw material imports during the Plan period was calculated by multiplying the actual raw material imports for the preceding year with the development ratio expected in the manufacturing sector during the Plan period «Net imports» were calculated by substracting from the «normal gross imports» thus obtained, the import substitutions expected within the period; and import estimates for surplus product (PL 480) were added to the figure reached.

c. **Imports of consumption goods.** — The hypothesis that the volume of imports of consumption goods is a function of GNP has been accepted in the Plan. For this purpose the ratio of consumption commodities (excluding PL 480 imports) were calculated. The coefficient thus obtained was multiplied by the national income estimates for the Plan period in order to reach the figure for the «normal gross imports» needed. Here, too, import substitutions expected during the Plan period were substracted from this figure, and PL 480 import estimates were added in order to find the «net imports» needs in consumption goods.

2. Criticism of the Method Used

The estimates obtained in this manner do not take into account the interrelationships between industries. This has certainly led to the negligence of side effects that might prove to be quite important in the future What is even more important is the fact that the coefficients used in the import projections were calculated only on the basis of past relationships. This assumption implies, in fact, that the planners have considered that the same relationships would be valid in future periods and more specifically in the Plan period. However, it is generally admitted that the study of past trends is far from being a consistently reliable guide, especially in the case of a rapidly growing economy This is because rapid development is a process which, by definition, leads to important structural changes. The fact that the coefficients used have been average coefficients, and not marginal ones, would seem to have increased the seriousness of this methodological error.

It should be kept in mind, however, that the lack of reliable statistical data is an important negative factor and this was the main obstacle to the adoption of a more sophisticated method of analysis.

We shall now examine, in greater detail, the methodologies used for the different types of import goods.

a. **Imports of investment goods.** — The fact that the method places a great deal of reliance on the investment series of past years should be considered a shortcoming, both in the light of the general objection made above, and in the light of the unreliability of the statistical data relating to these investments. Further, the assumption that the shares of machinery, equipment and construction in investments would remain unchanged throughout the Plan

period is an ungrounded one, for there is no **a priori** reason to suppose such a stability in these ratios. On the contrary, the general context mentioned above tends to lead us to the opposite conclusion. Finally, as has been pointed out above, the average import coefficient figure used in the calculations was derived from the trends of the preceding periods, and, as such, was presumably already affected by the import substitution trends of that period. The fact that the «net import requirements» were calculated from the «gross import requirements» by substracting the import substitution envisaged for the **Plan period,** — without any analysis of the relationships between the import substitution rates realized earlier and those projected under the Plan — should be considered another serious shortcoming of the Plan projections for investment goods imports.

b. Raw material imports. — One of the points criticized in these projections has been the separate consideration of PL 480 imports. The point is well taken, for these imports are obviously among the needs of the economy, and the fact that they are realized through the PL 480 channel is only a secondary consideration related to the modality of financing the imports — a consideration which should not, in any way, have influenced the calculation of the import needs of the economy as a whole Further, the assumption that **all** raw materials imports are consumed is certainly not valid and may lead to difficulties later on, for it is obvious that some raw materials are used in other sectors

c. Imports of comsumption goods. — The hypothesis that the increase in the imports of consumption goods will be a direct function of the increase in GNP is not very realistic for an economy where imports are subject to regulations and controls The fact that this relationship was not considered reliable for the calculation of global import needs, evidently supports this view. It would have been more meaningful to relate the imports in this group to total consumption expenditures.

The import estimates made on the above basis for the three categories of imports are given in **Table 1.**

As can easily be seen from the Table, it was assumed that there would be an important amount of import substitution during the Plan period. A total of 491 million dollars' worth of import substitution is foreseen for the first five years. Further, it was assumed that an important part of this substitution would take place in the field of raw materials.

TABLE 1

IMPORT ESTIMATES, 1963 - 1967 (C.I.F.)

In million Dollars

	1963	1964	1965	1966	1967
Investment goods	241 1	274.1	296.0	332.5	363 0
Raw materials	234.5	261 5	299.5	325.0	363 5
Consumer goods	71.4	76.4	84.5	87.4	93.5
Total	547.0	612.0	680.0	744.9	820.0
U.S Agric Production Surpluses (PL 480)	60.0	60 0	60.0	60 0	50.0
Total	607.0	672.0	740.0	804.9	870.0
Import substitution	—40 0	—45 0	—110.0	—130 0	—166.0
Total Import Requirements	567.0	627.0	630.0	674.9	704.0

Source : First Five-Year Development Plan, 1963 - 1967, p 468, T 375.

Abstracting the figures for import substitution, the yearly increase in the need for imports is 9.5 per cent. This implies an income elasticity of imports of 1.4. The average yearly increase in «net imports», however, obtained by substracting the import substitution figures envisaged from gross imports, is 5 6 per cent, giving an elasticity of 0.8

Thus it may be stated that the attainment of the estimated volume of imports depends, to a very large extent, on the realization of the import substitution foreseen for the Plan period. Under-realization in the field of import substitution will have even more serious repercussions on the economy if the other targets of the Plan, and especially the 7 per cent growth rate, are attained or surpassed; for this would mean a further increase in import requirements.

The realization of the import substitution envisaged is estimated to depend upon efficient and full utilization of the existing capital equipment, together with the realization of the investments expected to contribute to import savings.

Apart from the general measures related to import substitution, the Plan does not envisage any specific measures destined for this purpose, leaving the treatment of this problem to the Annual Programs, where the appropriate measures should be formulated separately for the relevant sectors.

We do not know very clearly to what extent import substitution has in fact been accomplished during the first few years of the Plan

implementation. Studies have yet to be carried out in this field. The fact that the investments foreseen in the Plan have not been wholly carried out, however, has no doubt had considerable influences on import substitution.

3. Export Estimates

In the preparation of the export estimates, consideration was given to the possible development in different sectors, as well as to production surpluses above and beyond domestic demand, and to the foreign demand situation.

For the more important commodities, the production possibilities during the Plan period were studied separately for each individual commodity while export products of secondary importance were treated globally, within the framework of sectoral estimates. **Table 2** gives the export estimates for the First Five-Year Plan period according to production sectors and main export commodities.

TABLE 2

EXPORT ESTIMATES, 1963 - 1967 (F O B)

In million Dollars

	1963	1964	1965	1966	1967
Agricultural Products	269 8	291 2	298 0	329 5	348 9
Cereals, pulses and other food stuffs	17 8	18 2	18 6	19 0	19.4
Fruit and vegetables	84 2	93 7	86 5	103 5	105.4
Industrial materials and forestry products	131.0	138.2	146.1	152 9	160.7
Livestock, hunting and fishery products	36.8	41.1	46 8	54.1	63 4
Industrial products	56 0	60 9	71 5	73.4	82 3
Mineral products	22 0	22 2	24 0	24.3	26.0
Total	**347.8**	**374 3**	**393.5**	**427.2**	**457.2**

Source: First Five-Year Development Plan, 1963 - 1967, p, 494, T 376.

As can be observed from the table, it is estimated that exports will reach 457 million dollars by 1967 This implies an increase of 34 per cent over the average for the years 1959 - 1961. In other words, there will be a yearly increase of 6.1 per cent if the 1959 - 1961 average is taken as the starting point, and a yearly increase of 7 per cent if we consider the Plan period only.

The First Five-Year Plan emphasizes the necessity of a structural change in exports. However, the actual export estimates are far from reflecting this basic objective of the Plan in the field of foreign trade The share of agricultural products in total exports will fall from 77.6 per cent in 1963 to 76.4 per cent in 1967, and the share of industrial products will increase by a mere 1.8 per cent, from its 1963 level of 16 1 per cent to 17.9 per cent in 1967.

4. Invisible Items

One of the targets of the Plan is to reverse the unfavourable balance of invisible transactions and to achieve a surplus by the end of the Plan period. An increase is expected in income from travel and tourism, a most important invisible item. Another important tenet is a decrease in interest payments.

Increases in the number of tourists visiting the country, in their average length of stay, and in their expenditures, is expected to result from investments in the field and from better publicity.

Thus it was estimated that travel and tourism would reach a balance by 1965 and would secure a surplus of 20 million dollars by the end of the Plan period.

The transfer of profits on private foreign capital investments were estimated on the basis of present and expected investments.

Interest payments on the foreign debt were calculated only for debts existing at the beginning of the Plan period. Interest payment on debts to be incurred during the Plan period were not taken into consideration

The Plan assumes an improvement in the other invisible items as well.

We now go on to study the provisions of the Plan relating to foreign aid requirements.

II. FOREIGN AID REQUIREMENTS IN THE PLAN

According to the Plan estimates (whose details and methodology have been discussed above) the total deficit in the balance of current accounts for the period 1963 - 1967 would be 1,246 million dollars. As can be seen in Table 3, the payments of the foreign debts reach 567 million dollars in the same period.

The Plan estimates relating to the U.S. agricultural surplus products (PL 480) to enter the country during the Plan period give

a yearly average of 60 million dollars for the first four years, and 50 million dollars for the last year of the Plan. When these amounts, together with the 25 million dollars of foreign capital expected to become annually available during the Plan period, are deducted from the **total deficit in the balance of current payments** (current account deficit **plus** foreign debts payments), the deficit to be financed from external sources during the Plan period becomes 1,398 million dollars, or an annual average of 280 million dollars. Further, the Plan foresees a «net error and omissions» item of 35 million dollars per year throughout the Plan period, increasing the foreign exchange requirements by another 175 million dollars. Thus the total need for foreign capital reaches 1,573 million dollars for the Plan period, or an annual average of 315 million dollars. These figures are quoted by the Turkish Goverment as corresponding to the requirements for the foreign financing of the First Five-Year Plan period. However, the requirements implied under the heading of «net error and omissions» has been criticised quite heavily by various foreign institutions. This criticism should be considered quite fair.

TABLE 3

SUMMARY TABLE FOR THE BALANCE OF PAYMENTS, 1963 - 1967

In million Dollars

Years	Deficit of Current Accounts (1)	Debt Payments (2)	Net error and omissions (3)	Finance Requirements (4)	Financing: PL480 (5)	Private foreign capital (6)	Total foreign aid requirements (7)	Foreign aid need (7)-(3)
1963	251	148	35	434	60	25	349	314
1964	273	99	35	407	60	25	322	287
1965	242	164	35	441	60	25	356	321
1966	246	80	35	361	60	25	276	241
1967	234	76	35	345	50	25	270	235
1963 - 67	1246	567	175	1988	290	125	1573	1398

Source : First Five-Year Development Plan, p 491, T 374

The fluctuations in foreign finance needs from one year to another, and their decrease towards the end of the period, stem mainly from the fluctuations in the payments of foreign debts. The deficit on the current account falls to 234 million dollars in the last year, showing a 17 million dollar decrease as compared to the deficit in the first year of the Plan.

The Plan is based on certain assumptions concerning the volume, composition, and other conditions of foreign debts. According to these assumptions, the pay - back period of the loans accepted during the Plan period would be 40 years, with **no payments** during the first 10 years Furthermore, it was assumed that the interest rate on these loans would not be more than 10 per cent Thus, as has been stated above, no additional debts payments are foreseen for the First and Second Five - Year Plan periods for the loans obtained after 1963 A brief study of the conditions of the foreign credits received by Turkey in the Plan years suffices to show that these assumptions were far from being realistic.

One other point that should be mentioned is that like all parameters in the Plan, those relating to the balances are also based on 1961 prices In other words, the Plan does not take into account the changes that may occur in the terms of trade Consequently, any disadvantageous changes in the terms of trade will increase the need for foreign aid, even if the estimates of the Plan concerning exports, imports, and other items are realized.

TABLE 4

BALANCE OF PAYMENTS PROJECTIONS

In million Dollars

	1963	1964	1965	1966	1967	Total for five years
Imports (CIF)	567	627	630	675	701	3203
Exports (FOB)	348	374	394	427	457	2000
Balance of Trade	—219	—253	—236	—248	—247	—1203
Tourism and travel receipts	13	18	25	35	48	139
Tourism and travel expenditures	— 20	— 21	— 23	— 25	— 28	— 117
Private profit transfers (net)	— 15	— 17	— 20	— 25	— 30	— 107
Payments of debt interest	— 28	— 24	— 29	— 16	— 12	— 99
Other invisible items (net)	— 29	— 25	— 20	— 20	— 20	— 114
Total invisible items (net)	— 79	— 69	— 57	— 51	— 42	— 303
Infrastructure and «off-shore» receipts	— 47	— 49	— 51	— 53	— 55	— 255
Total current account	—251	—273	—242	—246	—234	—1246
Foreign debt payments	—148	— 99	—164	— 80	— 76	— 567
PL 480 shipments	60	60	60	60	60	290
Private foreign capital	25	25	25	25	25	125
Other capital imports	349	322	356	276	270	1573
Total capital movements	434	407	441	361	345	1988
Net error and omissions	35	35	35	35	35	175

Source : First Five-Year Development Plan, p 491.

The plan projections related to the balance of payments are given in **Table 4.**

As the study of the related Plan documents indicates, the planners have emphasized the savings - gap function of the aid in addition to its trade - gap function The use of Harrod - Domar type of relations in the determination of the Plan parameters seems to confirm this point.

During the preparation of the Plan estimates, the amount of internal savings was estimated first. Given the capital - output ratio, the amount of total savings necessary to reach the 7 per cent rate of growth was calculated The savings gap (from which the trade gap is derived in the final analysis) was obtained by substracting the internal savings from the total savings needed.

The relations of the trade gap and the internal and external savings to GNP are given in **Table 5.**

TABLE 5

INVESTMENTS, INTERNAL SAVINGS, EXTERNAL SAVINGS

Years	Investments as percentage of GNP	External savings as percentage of GNP	Internal savings as percentage of GNP
1957	13.1	0.7	12.4
1958	13 9	0 8	13.1
1959	15 7	3 1	12.6
1960	15.9	2 4	13.5
1961	15 2	2.8	12.4
1962	16.3	4.0	12 3
1963	17.0	4.1	12.9
1964	17.9	4.1	13.8
1965	18.3	3.4	14.9
1966	19.3	3.2	15.8
1967	19.4	2.8	16.6

Source : First Five-Year Development Plan, p 116, Tables 49 - 50

It can be observed that the highest ratio of the trade gap to GNP since 1957 is reached in 1963 This ratio, which was projected to be 4.1 per cent in the first year of the Plan, was expected to decrease to 2.8 per cent in 1967.

One final point that should be mentioned in relation to the estimation of foreign aid requirements concerns Turkey's rela-

tionships with the Common Market, which are certain to have important repercussions in this area. The relationship of Turkey with the Common Market was still at the stage of negotiations when the First Five - Year Plan was being prepared. Therefore the effects of the European Economic Community on Turkish development trends have not been taken into consideration in the Plan. It was after the Plan assumed its final form in September 1963 that a partnership agreement was signed between Turkey and the European Economic Community. The effects of this partnership have been taken into consideration in the Annual Programs although the Plan itself was not revised. The basic modifications made have been related to project estimates and certain trade estimates.

We now go on to study the implementation period performance related to foreign trade.

III. THE FOREIGN TRADE PERFORMANCE DURING THE PLAN PERIOD

As can be seen in **Table 4,** the Plan foresees a trade deficit of a total of 766 million dollars for the years 1963 - 1965 The actual trade deficit for these three years has in reality been 280 million dollars for 1963, 100 million dollars for 1964, and 79 million dollars for 1965. In other words, the actual total trade deficit for these three years has been 489 million dollars, or 307 million dollars less than the estimated figure.

Thus, in 1964 and 1965, the foreign trade deficit has been considerably below the estimated figures in the Plan. At first sight, this might give one the impression that there is a definite improvement in Turkey's trade deficit, with a trend towards its elimination in the near future Before reaching a conclusion on this question, however, it is necessary to consider this improvement in relation to the overall economic situation and also as a function of the different items that constitute the total of current accounts, since isolated analysis is bound to lead to error. This is what will be done in the following paragraphs.

1. Exports

In general, exports have surpassed the targets set for the first three years.

TABLE 6

EXPORTS, 1963 - 1965

In million Dollars

Years	Planned	Actual	Difference
1963	348	368	20
1964	374	411	37
1965	394	459	65
Total	1116	1238	122

As can be seen, the values actually realized during the 1963-1965 period have surpassed the Plan estimates by 122 million dollars. The main causes of this situation are the following :

Firstly, although Turkish export prices show a declining trend in the long run, considerable increases in export prices were registered during the Plan period. Taking the 1961 - 1962 prices as the basis, export prices of the years 1961 - 1965 show the following development :

Years	Price Index
1961 - 1962	100
1963	124.8
1964	119.1
1965	119.7

Source : Preparations for the Second Five-Year Development Plan.

Secondly, as Turkey is a marginal exporter of many items, the high agricultural production in 1963, especially in cotton and tobacco, has led to considerable increases in exports.

Athough no important changes have been observed in the structure of exports, with agricultural products constituting three-fourths of total exports, it is clear that no important structural changes can be realized in a period of three years. Thus Turkey's dependence on good weather conditions and foreign demand for agricultural products can be expected to continue for a considerable number of years in the future.

2. Imports

The quota system previously applied for importations has remained in force during the Plan period with certain small modifi-

cations. With the exception of 1963 — the first year of the implementation period — actual imports have been less than the estimates in the Plan.

TABLE 7

IMPORTS, 1963 - 1965

In million Dollars

Years	Planned	Actual	Difference
1963	567	688	+121
1964	627	537	— 90
1965	630	572	— 58
Total	1824	1797	— 27

An important part of the excess imports in 1963 — some 79 million dollars — are due to the imports of the equipment of the Ereğli Steel Works.

The fact that while the import estimates in the Plan were based on the assumption of a 7 per cent rate of growth this rate failed to materialize in the period under review, and the fact that the Consortium for Aid to Turkey, set up to finance the foreign savings needed, failed to fulfill its commitments (cf. below), are the basic reasons for the failure of imports to attain the targets foreseen in the Plan.

3. Invisible Items

The balance of total invisible items has shown an important divergence from the estimates of the Plan.

TABLE 8

INVISIBLE ITEMS, 1963 - 1965

In million Dollars

Years	Planned	Actual	Difference
1963	— 79	— 9	+ 70
1964	— 69	—33	+ 36
1965	— 57	—14	+ 37
Total	—205	—56	+143

The basic reason for this divergence can be traced to the remittances made by the Turkish workers abroad, a factor which had not been considered during the preparation of the Plan. This item attained 70 million dollars in 1965, and was very largely

responsible for the reductions in the deficits foreseen. There was a favourable development in many other invisible items as well. On the other hand the incomes derived from tourism are well behind the figures foreseen in the Plan.

Thus, as a consequence of the low level of imports, the higher export prices, and the unexpected developments in invisible items, the deficit in the current account balance has been below the figures of the Plan projections.

TABLE 9

BALANCE OF CURRENT ACCOUNTS

In million Dollars

Years	Planned	Actual	Difference
1963	—251	—280	— 29
1964	—273	—100	+173
1965	—242	— 79	+163
Total	—766	—459	+307

The conclusion that the improvement is not due to any structural changes but to the low growth rate of the economy as a whole, and to contingent exogenous developments, is confirmed by the experience of the year 1966 Although the definite figures are not available, preliminary estimates show that imports have increased to levels beyond those projected in the Plan, and the improvements in the current account deficit are more or less totally wiped out, in spite of the fact that during 1966 the workers' remittances have attained an all-time high of more than 100 million dollars Exports increased marginally in 1966. The fact that this year has been one of high growth (8 8 per cent, mainly due to a favourable year in agriculture), is one more indication of the importance of judging foreign trade performance within the context of the performance of the overall economy.

Finally, we should deal briefly with the foreign aid situation and the activities of the Consortium for Aid to Turkey during the Plan period, to conclude this review of the implementation period.

4. Foreign Aid and the Consortium

During the preparation of the First Five-Year Plan, the forming of a consortium to meet the foreign exchange requirements of the Plan was envisaged The idea was supported by the principal

countries giving aid to Turkey. Particularly the U.S.A., the major aid giving country, considered that the Consortium would constitute a means of reducing its «aid burden». Turkey also supported the establishment of such an institution with the hope that on the one hand, the aid received would thereby assume an international character, and that on the other hand, the total amount of credits made available to Turkey would be increased.

The Consortium was created in July 1962, before the implementation of the Plan started The countries originally participating were Belgium, Canada, France, Germany, Italy, Luxembourg, Netherlands, the United Kingdom, and the United States; afterwards, with the participation of Australia, Denmark, Norway, Sweden, Switzerland, and the I B R.D., the number of members rose to 15. The I.M F., the E.E.C , and the European Investment Bank, participated later in the work of the Consortium, as observers.

Ever since its creation, the Consortium whose **raison d'etre** was to create the external resources required to finance Turkey's development plan, has been spending most of its time debating the suitability of the administrative structure of Turkey and the degree of realism of the Plan targets Before and after the formal creation of the Consortium, the different groups that have visited Turkey, ostensibly in connection with this institution, have concentrated mainly on gathering information and studying the Plan from the point of view of the donor countries, rather than of the real needs of Turkey. Thus, the institution has assumed the character of yet another method of interference by the developed countries in the affairs of the underdeveloped countries.

While Turkey defended the idea that fixing the development targets of the Plan was an internal affair and that other countries had no right whatsoever to interfere in the matter, the Consortium members kept on arguing that the Plan targets were too high and could not be reached Finally, in spite of all Turkish efforts, the Consortium refused to accept the financing of the Plan as a whole, and preferred to negotiate the aid to be given for each Annual Program separately This attitude, above all others, has contributed to phantastic delays in the supply of aid for the Annual Programs being implemented Thus, the decision concerning the volume and conditions of the loan needed for 1963 was taken as late as July as 1963. In 1964 the decision was taken in June 1964, and the loans relating to 1965 could only be negotiated during the second half of that year. Generally speaking, the volume and conditions of the loan needed for

a particular year became known only during the second half of the year in question. To say the least, this «slowness» of the Consortium has constituted an important bottleneck that has delayed considerably the implementation of investment programs.

Further, the Consortium committed itself for 265 million dollars, 244 million dollars, and 226 million dollars respectively in 1963, 1964, and 1965, or a total of 735 million dollars for three years, of which 636 million dollars were to be in the form of Program financing. In practice, however, only 523 million dollars of this total, or 71 per cent, had been disbursed by the end of 1965.

Thus, not only are the amounts on which agreement is reached some 50 million dollars less on the average than the loans requested by Turkey each year, but also, the funds actually made available constitute merely some 70 per cent of the sums agreed upon.

On the other hand, the Consortium has a distinct tendency to meet the foreign exchange requirements of Turkey for development **on paper** only, by including in its calculations such short-term credits as those given by the E.D.A or the I.M.F. Thus the picture that emerges is even more dismal when the implications of these short-term credits are taken into account. Total E.M.A. and I.M.F. credits for the years 1963-1965 amount to 173 million dollars. When this amount is subtracted from the total credits used during the same years, the figure obtained is 350 million dollars. This amount represents only 47 per cent of the total 735 million dollars pledged, which is already considerably below the real aid needs of Turkey.

Table 10 shows the Consortium credits pledged and actually disbursed during this period, by different donor countries.

The reasons for this state of affairs are not not far to seek. It is obvious that the Consortium is dominated by the United States, with Germany and the U K. taking second rank Turkey is an important export market for all three countries. Furthermore, it is well known that the assistance of the United States, the major aid-giving country to Turkey, is based on much than purely economic or humanitarian reasons, for the beginning of American aid to Turkey coincides exactly with the declaration of the Truman doctrine in 1947. On the other hand, such countries as France, Italy, and Canada, do not have very important economic relations with Turkey and have joined the Consortium mainly for prestige

TABLE 10

CONSORTIUM CREDITS, 1963 - 1967

In million Dollars

	1963			1964			1965		
	Pledged (1)	Disbursed (2)	Percentage of (2)/(1)	Pledged (1)	Disbursed (2)	Percentage of (2)/(1)	Pledged (1)	Disbursed (2)	Percentage of (2)/(1)
U.S.A	76 00	56 00	73 7	76 60	64 00	83 6	80 00	73 82	92 3
W. Germany	40 00	38 10	95 3	40 00	28 70	71 8	43 22	38 90	90 0
U K.	10 80	10 70	99 1	19 20	10 60	55 2	18 93	14 80	78 2
Total (I)	126.80	104.80	82.7	135 80	103.30	76.1	142.15	127.52	89.7
Other bilateral									
France	25 00	—	—	10 30	—	—	4 49	0 29	6.5
Italy	10 00	10 00	100 0	2 40	—	—	10 00	—	—
Sweden	1 00	0 50	50.0	1 00	—	—	1 00	—	—
Holland	1 75	0 80	45.7	2 50	—	—	2 00	—	—
Canada	4 60	—	—	4 60	—	—	—	—	—
Belgium	1 60	—	—	2.40	—	—	1.38	0.39	28.3
Austria	0 90	—	—	1 10	0.10	9 1	1 11	0 30	27.0
Switzerland	—	—	—	2.50	—	—	2.89	—	—
Norway	—	—	—	0.50	—	—	0 59	—	—
Denmark	—	—	—	0 50	—	—	0 51	0 51	100.0
Luxembourg	—	—	—	0.10	—	—	—	—	—
Total (II)	44.85	11.30	25.2	27.90	0.10	0.4	23.97	1.49	6.2
Total all bilateral (I+II)	171.65	116.10	67.6	163.70	103.40	63.2	166.12	129.01	77.8
Multilateral									
EMA	50 00	50 00	100 0	30 00	30 00	100 0	50 00	50 00	100 0
IMF	21 50	21 50	100 0	21 50	19 00	88 4	—	—	—
IDA	21 70	1 50	6 9	29 00	0 70	2 4	10 00	2 00	20 0
Total (III)	93.20	73 00	78 3	80.50	49.70	61.7	60.00	52 00	86.7
Grand Total (I+II+III)	264 85	189.10	71.4	244.20	153.10	62.7	226.12	181.01	80.1

reasons. It is therefore not surprising that they should wish to impose quite heavy terms for the credits which they make available to Turkey. The rest of the members are participating in the Consortium mainly in their capacity as members of the O E.C.D., as becomes clear when one remarks the fact that the total aid given by these countries during the three years in question is 2.6 million dollars.

Other reasons are related to the **organization** of the Consortium as such, which is far from satisfactory. The Turkish Consortium is the third such example after the Indian and Pakistani Consortia. While these latter were established within the framework of the I.B R D, the Consortium for Turkey has been conceived within the O E C D, with the role of this organization being reduced, however, to that of a Secretariat, and the final decisions being taken directly by the members themselves Further, the fact that Turkey is not a member of the Consortium obviously works against the better functioning of this body Turkey is merely required to supply the information demanded by the Consortium members in the meetings of this organization, where the problem of the actual amount of aid — which, after all, is the main question under discussion — is very rarely touched upon Finally, the reports prepared by the different groups that are sent to Turkey from time to time generally cause a great deal of friction, both between the Turkish Government and the Consortium members, and in Turkish public opinion. Thus the report of the «Business and Industry Advisory Committee» (B.I.A.C.) recommended, in essence, that the aid giving of the donor countries be organized entirely within the framework of private enterprise, and that the necessary measures be taken in Turkey to facilitate this arrangement!

Summing up, we shall say that if the attainment of the overall growth rates and foreign trade targets envisaged in the Plan necessitates the development of more sophisticated and realistic planning procedures, as well as the elaboration of more adequate implementation measures, these conditions are by no means **sufficient;** the realization of the Plan targets will depend, in the final analysis, on a better organization of the financing of foreign exchange requirements.

XIV

REGIONAL PLANNING IN TURKEY AND REGIONAL POLICY IN THE FIRST FIVE-YEAR DEVELOPMENT PLAN

by
İ. TEKELİ*

INTRODUCTION

Starting with the institution of the Republican regime in Turkey, an overall regional policy has been followed in the country : a policy that can only be explained through a careful consideration of the reasons leading to the emergence of the Republic. This policy, arising as a reaction to the semi-colonial experience of the Ottoman Empire in the last two centuries, — an experience which also manifested itself in the spatial organization of the country — eventually formed the essence of the regional policy envisaged in the First Five-Year Plan.

In the 15th and 16th centuries the settlement structure of the country reflected a balanced and integrated pattern, in accordance with the existing technology. However, while the economic relations of the Empire with the Western countries continued to develop in the 18th and 19th centuries, the settlement structure failed to develop into a modern one. This was due to the fact that the political

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and economic relations with the west were semi-colonial; infrastructural investments like railroads came from foreign sources, and the «market economy», to the degree that it was developed, was based on a foreign trade pattern highly unfavourable to capital accumulation. With the decline of the Ottoman Empire, the semi-colonial nature of these relationships was gradually intensified, and this situation was reflected in the pattern of connections between settlement points; ports were highly developed, but their relationships with points inland were a function of the trade needs of foreign powers. Parallel to the development of ports, their populations also swelled. Istanbul, which developed as a «city of passage» and had more connections with Europe than with Anatolia, was the most typical example of these urban units.

As a reaction to this general situation, a conscious policy of regional development was followed after the War of Independence Although during the years that followed there were serious conflicts of opinion with regard to the shares of the government and the private sector in economic development, the concept of a balanced regional development policy has, for some reason, enjoyed unanimous support. It is clear that one of the main functions of this policy was to justify the volume and distribution of public investments in certain areas

Among the different manifestations of this unanimously admitted regional policy were such decisions as those relating to the construction of a railway network, the distribution of state investments among various settlement points in Anatolia and, perhaps the most significant of all, the transfer of the capital from İstanbul to Ankara. This last measure, which still constitutes one of the few of its kind in the world, was especially important for the development of city planning in Turkey. Indeed, the problems of the new and growing capital have given a great impetus to city planning from the nineteen-twenties onward.

It was gradually realized, however, that physical city planning could not solve, by itself, the various urbanization problems created by the industrial transformation process. After 1950, the unfavourable aspects of this situation were accentuated, so that the Democratic Party then in power, decided to establish a regional planning bureau within the City Planning Office of the Ministry of Public Works.

This bureau, which was charged with the task of studying the urbanization process from all points of view, was only moderately

successful, due to the political atmosphere of the period In 1958, a year of great economic problems, the functions of the bureau were taken over by a newly set-up Ministry of Reconstruction and Resettlement Regional planning activity within this Ministry was concentrated in the General Directorate of Planning and Reconstruction. However, the importance apparently accorded to the subject was in fact undermined once again by political considerations, and the work of the Directorate was, on the whole, restricted to surveying the show-case projects undertaken in İstanbul and a few other cities, partly to remedy some immediate urban congestions and partly to divert public attention from the grave economic difficulties of the time

Apart from this reconstruction work, the main activities of the Democratic Party period were centered around the Koyceğız-Dalaman, the Marmara Region, and the Zonguldak, projects.

The Köyceğız - Dalaman project, in which some Ministries and Administration Departments, and the O.E.C.D , participated, was undertaken after the destruction of the town of Fethiye in South-West Turkey in an earthquake in 1957, and within the context of an O E.C.D. pilot project for regional development work in some Mediterranean countries. Although some interesting studies were made, the level at which the project was conceived (i e., the «ilçe» — county — level) was not suitable for regional planning, and the resulting program was far from operational The disparate organization of the activities also played an important role in this connection. The project was soon forgotten, and can not be said to have been significant in any manner

The Marmara Region project was undertaken by the Ministry of Reconstruction and Resettlement, and was meant to systematize, to a greater extent, the İstanbul urban renewal activities mentioned above. Although the intention had been to restrict and control the haphazard and rapid growth of the region, it was eventually admitted that it would be impossible to reverse this trend by using what were predominantly «architectural» methods. However, in spite of its many unrealistic assumptions, this plan is being partially implemented in physical terms, and used as a guiding reference document. With the establishment of the S.P.O., the project has acquired a more comprehensive character, but, as we shall see, its application is still very restricted.

The Zonguldak project was started by the Ministry of Reconstruction and Resettlement in 1961, to solve the various problems re-

lated to the iron and steel industry and coal mining in the region, as well as to improve regional planning procedures by training new personnel and acquiring more exact data at the regional level. The early «clinical» or «descriptive» studies were superseded by a second stage in 1962 when, with the establishment of the S P.O , the staff was enlarged to include ten people, and sectoral projections with a twenty-year prespective were undertaken. We shall examine the contents of this plan in greater detail further below

The following general characteristics apply to all planning work undertaken before the First Five-Year Plan :

a) Physical problems received too much emphasis;

b) Not enough attention was given to the «regions within the systems», and there was a tendency to consider regions singly by themselves;

c) In almost all projects, the task of training regional planning personnel was considered only as a supplement to practical aims;

d) There was excessive dependence on foreign experts participating in the teams who, in turn, were influenced by their former planning work, undertaken under different conditions. Some foreign experts merely reproduced their previous works on planning, without considering local problems and conditions;

e) Almost none of the projects have been applied.

With the establishment of the S.P.O. in 1961, it became possible to consider regional planning more comprehensively and efficiently, within the context of national planning. However, as we shall see later, the principles of regional planning policy were not formulated very clearly in the Plan, and what is even more important, there was no serious effort made to reconsider the functions and responsibilities of the General Directorate of Planning and Reconstruction and those of the S.P.O in the field of regional planning, in relationship to one another. Consequently in spite of the potentially greater possibilities, the organization of regional planning work remained — and remains — incomplete.

In the early years of the S.P.O , planning activities nevertheless received a degree of encouragement not encountered earlier; and great advances were made both in the development of the necessary techniques and in the training of competent personnel able to work efficiently within interdisciplinary teams. However, in 1965, the (then) Undersecretary of the Organization decided to discourage the var-

ious activities undertaken, on the grounds that they would foster «regionalism» within the country. Thus, work on many projects was abandoned or curtailed to a large extent. Regional planning activities were transferred from the Social Planning Department of the S.P.O. to the Economic Planning Department (presumably because this Department is better equipped to control them within the context of national economic planning activities); and the 1966 Program discussed «environmental» rather than «regional» planning.

Nevertheless, many interesting efforts have been made during the first Plan period and, as we have said, a great deal of valuable experience has been acquired. In the rest of this article, we shall deal first with the concept of regional planning in the First Five-Year Development Plan, to take up, in the second and final section, the various regional planning projects which have been developed and expanded in the first Plan period

I. THE CONCEPT OF REGIONAL PLANNING AND REGIONAL POLICY IN THE FIRST FIVE-YEAR PLAN

As we have said, the inclusion of the concept of economic planning within the system of the National Plan, rendered possible a more comprehensive understanding of regional planning. Nevertheless, the consideration of the regional plan within the National Plan has not gone beyond the level of general policy. In the following paragraphs, we shall survey the Plan targets for regional policy, the contents of regional policy in the Plan, and the tools of regional policy, with a view to acquiring clearer ideas about the role attributed to regional policy in the Plan.[1]

1. The Plan Objectives for Regional Policy

The main objectives assigned by the Plan to regional planning are as follows :[2]

a) «To assure a better equilibrium between incomes based on the distribution of the population in proportion to resources and economic activities, by keeping in mind the principles of inter-regional development in the determination and geographical location of investments.

1 The basic reference for the following paragraphs is the section on «Regional Planning and (regional) Development», **First Five-Year Development Plan, 1963 - 1967**, Prime Ministry, State Planning Organization, Ankara, 1963, pp 425 - 430

2 **Ibid.**, p. 425

b) «To increase overall productivity by priority allocation of resources to regions with high social and economic potential.

c) «As stated in the Plan «Objectives and Strategy», the aim of regional policy may be summarized as the elimination of regional imbalances and the acceleration of the development of backward regions».

The Plan has considered regional problems, or the wider concept of national physical planning, under two general headings : (1) The problem of balanced development (regional inequalities); (2) The selection of locations for projects.

Apart from mentioning these two physical planning problems, the Plan is rather vague, and the little that was indicated has been neglected in the actual implementation. Besides these two points, the Plan discusses the regional planning work already being carried out, classifying the regional projects into those dealing with : (1) Regions of potential development (2) Underdeveloped regions, and (3) Metropolitan areas. The integration of these regional planning activities within the framework of the national plan is considered as the next stage to be undertaken in regional planning, as well as its basic **raison d'être**. Indeed, the Plan indicates quite clearly that regional planning cannot be conceived independently of the national plan.

The basic procedures of regional planning are mentioned in the Plan Strategy as follows:[3]

a) «At the first stage, emphasis will be placed upon decisions pertaining to locations», and in this stage: (1) «It will be suggested that more than one location be considered in the formulation of investment projects» and (2) «Among the projects given an equal rating in terms of other investment criteria, priority will be accorded to those which have selected less developed regions as locations.

b) «At the second stage measures will be adopted for the encouragement of private investments in certain regions, and in the programs for government investments, priority will be given to those regions

c) «At the final stage, full-scale regional development plans will be prepared. For the selection of regions, both economic consid-

3 cf Appendix II to this volume, **Resolution Adopted by the High Planning Council: Objectives and the Strategy of the Plan.**

erations (growth potentials of regions) and social considerations (development of backward regions) will be taken into account.»

2. The Content of Regional Policy in the Plan

The policy envisaged is, in general outline, no more than a continuation of the regional policy followed since the declaration of the Republic. However, it has been defined in very ambiguous terms, a fact which, as experience has shown, renders the evaluation of actual performance exceedingly difficult, if not impossible.[4]

Thus, for example, it is not very clear whether the term «balanced regional development» implies equality of growth rates, or equal absolute shares of growth, or the elimination of all differences between regions, or some other concept of balance. This state of affairs is obviously quite undesirable. In order to obtain adequate evaluation criteria, it is absolutely indispensable to define clearly and completely the variables involved in the concept, such as gross regional product per sq. km , median per capita income of the region, etc.

Another point that must be clarified is the size of the spatial units to which the criteria are to be applied The application of the criteria to the province unit, to counties, or to regional units formed by a group of provinces, will all give different results. Generally speaking, the larger the spatial units considered, the smaller will be the relative differences.

On the other hand, the fact that the regional policy content of the Plan considers inter-regional balance only, and fails to make a choice on the organization of the economic space **within** a particular region, should also be considered an important deficiency. Differences among regions in settlement, commodity exchange or flow patterns, imply different optimum organization strategies for each unit. Without defining this strategy, it would be difficult to contend that the optimum distribution of investments can be reached within a specific region The Plan contains no clear indications on this point at all.

Further, it is clear that even with more specific economic criteria, it would not be possible to find a determinate solution to the problem of regional optimisation. This is due to two basic types of

4 For an account by an S P O expert of the follow-up of the regional distribution of investments and of some related problems, cf the Appendix by N. Ölçen to the present article (Ed 's note)

reasons. First, since a given balance among and within regions can generally be obtained by more than one combination of investments, it is necessary to reduce the degrees of freedom involved, by taking additional policy decisions on such factors as **migration** among regions, the population density desired, etc. Secondly, in a developing country like Turkey, where small group identities have not yet totally disappeared and where (as in Eastern Anatolia) tribal and local identities are competing with the national identity, it is obvious that regional policy must shoulder responsibilities that go even beyond those implied by pure and simple socio-economic considerations In this sense, regional policy is also an **instrument of national integration** so that a well-formulated regional policy should not only indicate quantitative flows between and within regions, but also make recommendations about the various types of ties that should be created and encouraged interregionally and intra-regionally, and about how the various regions should complement one another.

A further deficiency emanates from the fact that various modern regional planning concepts, such as «growth poles», «selective concentration», etc have not been considered in the Plan. The vague mention in the section on «metropolitan areas», of «satellite towns» to prevent overcrowding of highly urbanized regions, has proved to be a superficial reference which has not been followed up in any way during the implementation period.

Finally, as we shall see in greater detail below, the relationships of the regional plans with the national plan have been formulated only at the level of generalities, and not in an operational manner — a fact which detracts once again from the content of regional policy.

3. The Tools of Regional Policy in the Plan

The tools of regional policy in the Plan will be discussed on the basis of the three basic types of regional planning procedure envisaged in the Plan. These are: (1) The choice of location; (2) The encouragement of private and public investments in neglected regions; and (3) The preparation of detailed regional plans integrated within the national plan

a. The planning tools used in the choice of location. — In the existence of alternative projects of equal importance, as far as economic investment criteria are concerned, the Plan principle for the initial choice of locations is to give preference to the project located in the underdeveloped area.

Although it might appear reasonable, this principle is in fact deficient, for it is another way of saying that the Plan prefers to avoid dealing with the problem of **determining the economic cost** of the preferences made for socio-political reasons. This is contrary to the basic objectives and orientation of the Plan, where non-economic considerations (solution of the unemployment problem, regional balance, etc.) have a relatively important weight. It is clear that the tool provided for the choice of location does not permit an adequate handling of these non-economic objectives

The reason for this shortcoming can probably be explained by the fact that the socio-political content of regional policy has not been determined in the Plan (cf. above); it is also to be feared that this state of affairs may actually retard a clearer formulation of these non-economic objectives in the future. Further, even within its own framework the principle cannot be applied, given the present state of the Turkish economy. The number of projects available to the public sector have been very limited, especially in the early years of the Plan, so that the problem of choosing from among alternative projects has not even arisen in many instances. On the other hand, the fact that the number of projects proposed for underdeveloped regions is — and for many reasons would tend to be — proportionately much less than that proposed for developed regions means, in effect, that the decision criterion carries a bias against the underdeveloped regions.

What seems to be necessary is a compromise between the Plan approach of formulating projects first on the basis of sectors and then choosing regions, and the entirely physical approach of determining investment regions first and choosing the sectors later. The first step necessary for such a compromise solution is the formulation of the non-economic objectives mentioned above, and their consideration within the framework of the project, from the beginning. Further, the criteria thus established should be supplemented with the addition of new dimensions besides the economies of scale, which is the only scale criterion used at present. Other types of economies that take into account the relationships **among different projects**, and that might be considered, are the **economies of urbanization** and the **economies of localization.**

b. Tools of investment encouragement. — The Plan envisages, as a second set of procedures for regional policy, the encouragement of private sector investments in certain regions, and an increase in

the public investments in underdeveloped regions. The measures that would be necessary for the encouragement of private sector investments in this direction are not clearly formulated in the Plan; and although no survey of private investments exists from this point of view, it seems clear that this principle has not been implemented during the Plan period: Most private sector investments were concentrated in the highly urbanized regions, and especially in the Eastern Marmara, Ankara, and İzmir regions. On the other hand since public sector investments can be guided through administrative decisions, no special measures are needed for their orientation towards underdeveloped regions except, of course, those measures relating to personnel requirements and the exigencies of project preparation and implementation The results of the Plan efforts in this field have been considerable. An S.P.O. study, based on a set of 27 socio-economic indices,[5] shows that 21 provinces in Eastern Anatolia, with 24 per cent of the total population, fell into the category of «backward areas». The 1966 Annual Program shows that the percentage share of public investments in these regions has increased from 10.8 per cent in 1963 to 23.6 per cent in 1965. Although it is based on administrative decisions without any structural basis, the rate of progress is nevertheless impressive, and we can only hope that it will be maintained in future years.

c. **The tools envisaged for the preparation of regional plans.** — As the third and more advanced procedure of regional policy, the Plan envisages the preparation of detailed regional plans that will be incorporated into the national plan. As will be shown, it is in this set of procedures that the tools provided by the Plan reveal themselves to be the most inadequate.

Firstly, the Plan is not clear about the **type of regional plan** envisaged, and about the **planning techniques** that should be used. Since the various regional planning teams working on different projects have been in the dark about the nature of the projects they were preparing (informative, descriptive, developmental, adaptive, etc.), the methods used and the types of conclusions reached have also varied considerably from one regional planning study to another. This situation could have been attenuated to a great extent by a specification in the Plan, or in subsequent documents, of the general framework required for these planning studies.

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5 For this index, cf the note to the Appendix. (Ed 's Note)

A second, and perhaps even more important, point is that the modalities of the incorporation of regional study findings in the Annual Programs have not been determined. This is due to the conjunction of specific circumstances. As will be remembered, the Plan envisages regional planning activities only as tools of the national plan and refuses to admit them as «independent» plans This implies that it is impossible to set up a procedure whereby the preparation of the Annual Programs is based on a systematic flow of projects from the regional planning studies to the national plan Although these studies can lead to proposals of **individual projects** (and some studies where pre-investment surveys were undertaken have, in fact, done so), they cannot ever enter into a «dialogue» relationship with the Plan, as independent entities.

This situation, which by itself would not necessarily lead to any positive or negative value judgements, is further complicated by the fact that the alternative approach which is usually open in the circumstances, is also unavailable in the Turkish case. Indeed, the rejection of the idea of comprehensive regional plans implies that the studies made will be «adaptive» ones, destined to ensure a better application of the national plan in the various regions. However, since this point has not been considered at all in the preparation of the Plan, neither the techniques implied by adaptive planning, nor the modalities of the flow of information and of decisions, have been formulated. On the contrary, there are various practices which render such a relationship between the national plan and the regional plans quite difficult, if not impossible. For example, the projections made by the State Planning Organization, even for the perspective period as a whole, cover a shorter period (15 years) than the perspectives taken in most regional studies (20 years). Further, the sectoral development decisions in the Plan are based on a much shorter perspective period than the one in the regional studies Finally, the Plan does not contain any indications concerning the regional allocation of investments in the various sectors.

Thus, as a result of the rejection of the idea of comprehensive planning, and as a result of the failure to formulate realistic adaptive planning procedures, the activities carried out within the framework of this third set of procedures have been taking place in a «policy vacuum», and the model which emerges from this conjunction of circumstances is an example of what can be termed the «competitive planning approach.»

In this model, development sectors within the region are determined, and the probable share of the region in the distribution of sectoral investments given in the Plan is estimated, after considering the comparative advantages enjoyed by other regions in this respect, as well as the decisions already taken on the question An alternative procedure would be to take a given level of effort as the starting point and, by calculating the possible «endogenous» effort of the region, to estimate the external needs. As can be seen, the model leads to a competition between various regions for the total distribution of investments. The fact that regional planning is not undertaken in all areas of the country leads to certain inefficiencies and injustices in the functioning of the mechanism. In particular, areas with regional plans have a relative advantage compared with regions where no planning work is undertaken.

Summing up, one may say that the Plan has not been very successful in determining the targets, contents, and tools of regional policy in the Turkish economy The implementation seems to reflect the undesirable results of this situation, and it would seem that unless the objectives and contents of regional policy are clearly determined in future plans, even more important problems may arise.

In the next section we shall review briefly the various regional planning studies conducted during the Plan implementation period.

II. IMPLEMENTATION : REGIONAL PLANNING STUDIES DURING THE FIRST PLAN PERIOD

In the following paragraphs we shall examine five regional planning studies conducted during the implementation period of the Plan. These are the Zonguldak Project, the Eastern Marmara Region Project, the Antalya Regional Project, the Çukurova Regional Planning Project, and the Eastern and South-Eastern Anatolia Project As an important case study, the Zonguldak project will be discussed in somewhat more detail than the others.

1. The Zonguldak Project

The planning work undertaken on the Zonguldak Project as described earlier, was reconsidered after the publication of the Five-Year Plan, in the light of the Plan goals. The «Targets and Strategy» section of the Preliminary Plan for the Zonguldak Region indicates that the principle of adapting the regional plan to the national plan has been accepted :

«The Zonguldak regional planning studies are not considered as an isolated regional settlement planning activity, but as a comprehensive planning work including social, economic and physical aspects in unity and coordination. The Zonguldak regional plan aims at contributing to the balanced development of the Turkish economy and social order as a whole, rather than to the development of a single and separated region. The Plan has been prepared with the aim of fulfilling the following functions by establishing relationships among existing plans at various levels :

«a) To go into details which the National Plan cannot cover, and to create the general framework which urban plans cannot establish;

«b) To facilitate the implementation of the policy decisions of the National Plan in the region and to assist the public and private sectors in this connection;

«c) To bring in the space dimension along with the time dimension in the distribution of investments in socio-economic plans;

«d) To achieve the regional coordination of various activities.

«The Zonguldak Plan has been prepared as a long-term plan covering 20 years (1960 - 1980) and it will be reconsidered in five-year periods parallel to the National Plans. It will also include programming for annual plans. The objectives of the Plan are as follows·

«a) To raise the share of the region in the economic development of Turkey to the optimum, and to define more clearly the function of the region in this development process;

«b) To study the problem of population increases, the development rate, and the balance between them,

«c) To develop the regional infrastructure in a manner that will serve the objectives of the Plan,

«d) To reduce income differences within the region;

«e) To obtain maximum benefits from investments;

«f) To encourage urbanization and to increase non-agricultural employment areas,

«g) To encourage the establishment of the balance between the public and private sectors».

As this quotation shows, the Plan displays the characteristics of the «competitive planning» approach.

At the beginning, the only guiding document in the activities was the Five-Year Plan. On the other hand, the construction of the second iron and steel mill in this region was based on a decision exogenous both to the regional and national plans. In many ways, this important investment was an unfortunate one for the area and the region. Since the national plan was prepared on a sectoral basis, and required the same breakdown for regional studies, sectoral studies assumed importance in the Zonguldak Project also. In the vertical sector studies, the sector definitions of the national plan were taken as a reference, but separate and more detailed studies were made in connection with the special problems of the region.

The general procedure followed was roughly this : First, studies were made on the basic productive sectors of the regional economic structure — namely, agriculture, forestry, mining, iron and steel, cement, and food. The relative places of these sectors in the Turkish economy, the resources of the region, the demand and supply conditions, were all analysed within a 20-year perspective, and estimates were made about possible developments that would take place and about their effects on employment and income Since the Five-Year Plan has been prepared according to a 15-year perspective, some difficulties were involved in using a 20-year perspective (cf. section I above).

As a next step, the infrastructure and services sectors (transportation, energy, water, housing, education, health, commerce and banking), were studied with due regard to actual conditions, capacity, and in their functional ties with the productive sectors

The sector studies were carried out using a sectoral approach; however, the use of a systems approach was necessary for the later stages, since the Plan was intended to be an integrated one. To obtain the desired integration, a synthesis was made taking into consideration the horizontal ties, at three basic levels :

a) A horizontal (cross-sectoral) study was made at the **national level,** to determine the place occupied by the region within the economic structure of Turkey, with a translation of the national plan objectives to the regional level.

b) Horizontal relations at the **regional level** were established after an analysis of the physical and demographic resources, and

the economic structure, as well as of the settlement hierarchy resulting from them.

c) Thirdly, the overall synthesis of horizontal relations was achieved, with the aid of an economic synthesis and macro-economic estimates

The general flow of the synthesis is given in the **chart** below. In this synthesis, the first independent variable was the existing structure of the region. This structure had to be considered at three levels : The structure of the national systems, the structure of neighbouring regions, and the structure of the region under study (in its physical, social, economic, demographic, and administrative aspects) at the beginning of the project.

The second group of elements considered as limiting factors were such entities as the goal system, constraints related to planning means, mass behaviour and attitude constraints, maximum and minimum standards, etc.

After establishing the development limits, a «development analysis» was conducted on the sectors of the region, using such tools as comparative cost analysis, theory of socio economic change, urban complex and flow analysis, etc.

Once the development possibilities were defined, the fundamental relations required for the programming were established : crude income increase estimates, exogenous-endogenous sector relations, input-output relations, capital-output ratios, labour-output ratios, income elasticities, etc.

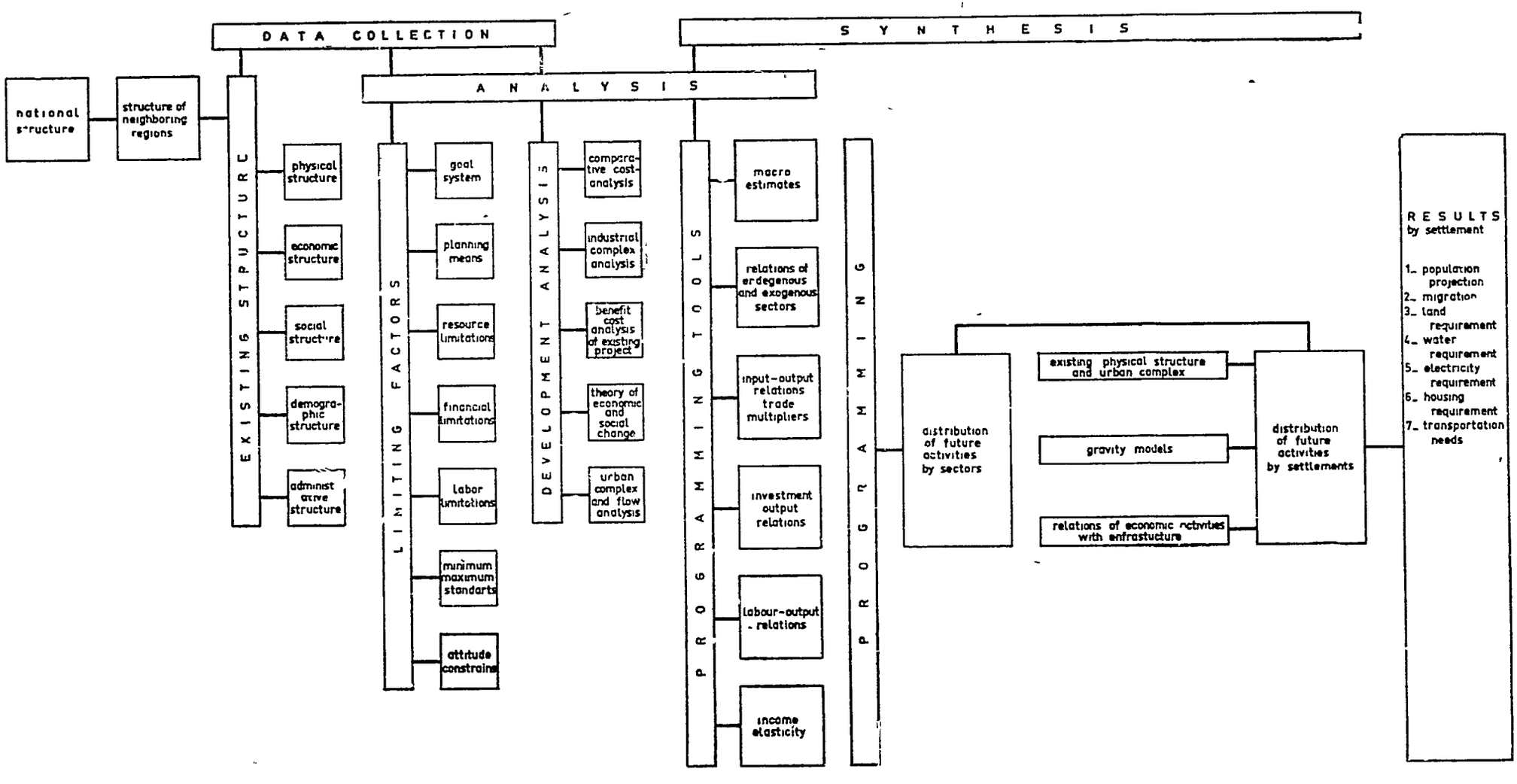
The next step was the programming, where the most relevant constraints among those investigated were taken into account. Iterative methods were used

Having determined the total volume of activity projected for the region, it was necessary to effect their distribution in space; this constituted the last step of the synthesis.

As a result of the studies described above, (1) a perspective plan for 20 years; (2) a list of suggested investment projects or fields, and measures and proposals ranked on a priority basis by sectors; and (3) a physical master plan, were obtained.

The resulting **framework of economic considerations** is as follows :

FLOW CEART OF SYNTHESIS ACTIVITIES IN THE ZONGULDAK REGIONAL PLANNING PROJECT



a) Choice of industrial priority sectors (Here, questions such as which kind of investments must be made or encouraged, and the choice of the criteria for inducement are elaborated);

b) Choice of the agricultural priority sectors : Considerations on such topics as the location of agricultural development efforts, the types of cultivation to be developed, and the techniques to be used;

c) The suggested distribution of regional resources at the end of the planning period : New land-use patterns, and the new use-pattern of forestry products;

d) The decisions pertaining to production targets in each sector, for the end of the planning period as well as for the five-year intervals;

e) The distribution of the gross product of the region by sectors, and the increments in incomes at the end of the planning period;

f) Projections of the labour force size and its distribution by sectors and cities for the planning period;

g) The total amount and sectoral distribution of investments necessary for the realization of the production targets.

The framework of the **physical decisions** in the Plan is as follows :

a) The list of settlement points the growth of which should be encouraged or discouraged;

b) The nature, direction, and timing of the development of the settlement;

c) The list of the sizes of land necessary for industrial and commercial use, according to the type and size of these activities;

d) The locations and surface areas of agricultural and conservation regions;

e) The locations and surface areas of land reserved for public recreation;

f) The locations and capacity of main transportation lines;

g) The locations of educational and health facilities;

h) The distribution of population, in the different settlements, by types of activity;

Among the **social planning** indications of the Plan, the most important are the following :

a) Educational programs : Suggestions concerning the number of schools and personnel needed, on a five-year basis;

b) Health programs : The same breakdown as in a), for the number of hospital beds, number of personnel, etc;

c) The housing program : The volume and the distribution of residential houses to be built, the standards and measures necessary for the realization of the target,

d) Special regional problems related to employment, improvement of work conditions, social security schemes, etc;

e) Public services programs.

Finally, within the framework of **administrative measures,** the following points are considered as the principal ones :

a) The organizations and institutions to apply and execute the suggested decisions are urged to take the necessary measures. Proposals are also made for improvements relating to existing measures.

b) Proposals are made for changes in local organizations.

2. The Eastern Marmara Region Project

The Eastern Marmara Preliminary Plan, which has dealt with the problems of the region and of Istanbul in particular, since 1964, has not yet assumed a compulsory character The adaptation of city plans to regional plans, a most effective instrument in assuring the implementation of regional plans, has found no application in the Istanbul area. The collaboration started in 1961, between the regional planning organization and the municipality of Istanbul, has not gone beyond the reinforcement of the planning organization by certain elements belonging to the city. The municipality of Istanbul has continued to consider itself outside the jurisdiction of the report prepared.

3. The Antalya Regional Project

Although the Antalya Regional Planning Project started before the Five-Year Plan, an important part of the planning activity in this region took place after the establishment of the S.P.O. and under its responsibility.

The study was launched with the aid of the FAO, and the financial assistance of the United Nations Special Fund. Having cost some 11 million liras so far, it is the most expensive regional

planning experiment in Turkey. The study is not yet completed; nor has it arrived at a definite plan. Because the aims were not explicitly determined, studies at different levels of detail and with different aims were prepared; but it was not possible to develop a methodology which would consider all of these within a consistent framework. The FAO, which had been charged with the technical direction of the project, carries the main responsibility for this state of affairs

The studies undertaken in the region by the FAO - S.P.O. team came to an end in May 1965, when the foreign specialists left. The final report, which was to be completed at the end of the project studies, has not yet been submitted to the Government, although more than a year has passed since.

Although the final report is not yet available, one may surmise that failure has been assured from the beginning, due to the mismanagement of the activities of the teams. According to the statement in the preliminary work program of the project, the main aims of the project were to be: (1) the undertaking of studies that would serve as a basis for the economic development program of the region, (2) the acquisition of the experience necessary to carry out similar studies for other regions of the Mediterranean area, and (3) the training of Turkish personnel in the subject None of these aims were realized during the implementation of the project. Since no overall planning framework or methodology was developed, the individual experts were led to work as they pleased, and the resulting studies lacked any basis for comparison. The lack of experience of the Turkish project directors prevented them from appreciating the undesirable consequences of this trend, and from reacting accordingly. On the other hand, the team members who were supposed to be trained as regional planners were used as interpreters in many cases, or were at most relegated to the rank of «assistant», without any say on the various problems. Hence, it is certain at any rate that the last two aims of the project, viz , the development of planning methods and the training of Turkish personnel, have not been realized.

4. The Çukurova Regional Planning Project

The Çukurova Regional Project was initiated by the Ministry of Reconstruction and Resettlement in 1962. In 1963, the S.P.O., having secured financial aid from the A.I.D., officially participated in the project and assumed the responsibility for it.

More than 50 planners from the S.P.O. and the Ministry of Reconstruction and Resettlement, and about 10 A I.D. experts, have participated in this project. The fact that the A.I.D. experts had little idea of regional planning, was a factor limiting their contribution to the project

The goodwill of the personnel coming from the S.P.O. and the Regional Planning Bureau, permitted the employment of the team members within their particular fields of specialization, regardless of the government agencies they had come from; these favourable circumstances had been lacking in the Antalya Project.

Although the comparative liberty in the use of the funds secured by the A.I D. has helped the smooth progress of the work, the project has not yet been completed, due to many administrative reasons.

5. The Eastern and South-Eastern Anatolia Project

The study of the various economic and social problems of the Eastern and South-Eastern Anatolia region gained new dimensions and became particularly urgent in the context of the Plan recommendation for the construction of the Keban Dam and hydroelectric power plant in this region The regional planning study began in 1964, with the cooperation of the S.P.O and the Regional Planning Bureau experts. The Regional Planning Bureau was given the principal responsibility for conducting studies on settlement and transportation problems and on the determination of the sub-region that would be most convenient for the construction of the Dam. The Regional Planning Bureau insisted that the Regional Planning Office of the Ministry of Reconstruction and Resettlement also be responsible for the coordination of the various studies made. It is expected that the initial studies, mostly completed at present, will lead to the establishment of a more detailed work program for the next few years.

III. CONCLUSIONS

With the beginning of the period of planned development, the financial and other means, as well as the scope, of regional planning activities have assumed an importance which they had not possessed before. This should be considered logical in the context of an economy trying to achieve rapid growth with the use of conscious measures,

rather than through the spontaneous working of the market mechanism. Despite these increased possibilities, however, the regional planning activities undertaken so far during the planned period have failed to give any significant results; if the quality of the research has been improved in general, no real success has been attained, either in terms of the development of more adequate planning techniques and the training of personnel, or in terms of substantial policy recommendations. The study of the activities of the period and of the contents of the Plan as concerns regional policy, indicates that this is due, among other things, to the failure of the Plan to define the contents and tools of regional policy clearly and to the failure of the S.P.O. and the Ministry of Reconstruction and Resettlement to achieve a harmonious cooperation and coordination in their activities.

This situation has led to a general inadequacy in regional planning activities, and to policy recommendations which either ignore the basic objectives of the Plan, or are, in fact, in contradiction with them. It is clear that if these drawbacks are to be overcome, a much more specific and realistic definition of the goals of regional policy is necessary, as well as a much better integration of regional plans within the national Plan. However, when one combines the observations on the Turkish experience of the past few years with the fact that no regional planning effort of any kind has ever been successful so far, within the framework of a «mixed economy», anywhere in the world, one is led to ask oneself whether the failure of regional planning activities is not related to more basic considerations concerning the nature of the economic regime, rather than to simple deficiencies in planning and administrative techniques.

Appendix : THE GEOGRAPHICAL DISTRIBUTION OF PUBLIC INVESTMENTS

by
N. ÖLÇEN*

To analyse the geographical distribution of investments with respect to regions is essentially a difficult task. This is because it is impossible, with certain types of investments (e.g. highway or railway construction, high-tension power lines, irrigation facilities covering a large area, etc.), to say to what area or region they belong. As they cover one or more regions, it is not possible to show their locations on the map with a point. On the other hand, we can mark schools, hospitals, dams, factories, etc., and related investments, by points on a map. We call investments that can be indicated by specific points on the map of Turkey, «point investments».

In the 1963 Program, point investments in the public sector constituted 54 per cent of the public investments. This ratio is calculated to be 72 per cent in the 1964 Program, 69.5 per cent in the 1965 Program, and 68 per cent in the 1966 Program.

In the analysis of the geographical distribution of investments, the province was taken as the basic unit, and it was assumed that investments within a province were made at the province centre. In other words, to simplify the matter, all point investments within a province were handled on the map at the point indicating the provincial centre. In this simplified model, a value index of a maximum of 1000 units was defined for the total of point investments belonging to a year Thus, in 1965, the point investments amount to 5028 million TL., assumed to be equal to 1000 monetary units Of these 1000 units, 127,7 represented the public investments made during 1965 in the province of İstanbul. In other words, 12.8 per cent of all point investments went to the province of İstanbul. This ratio is 9.5 per cent for the province of Ankara; 2.4 per cent for the province of İzmir; 7.3 per cent for the province of Zonguldak, etc.

In **Figure 1** below, the geographical distribution of public investments is given for 1965. It can be observed that points with equal indices form curves on the map These are the iso-investment curves of Turkey An interesting point is that the iso-investment curves with maximum and minimum values occur in certain regions, and no variations can be observed from one year to another. For example,

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Cf note to the Article «A Follow-up Study: The Implementation of the Investments Foreseen in the First Five-Year Plan» (Ed.'s note).

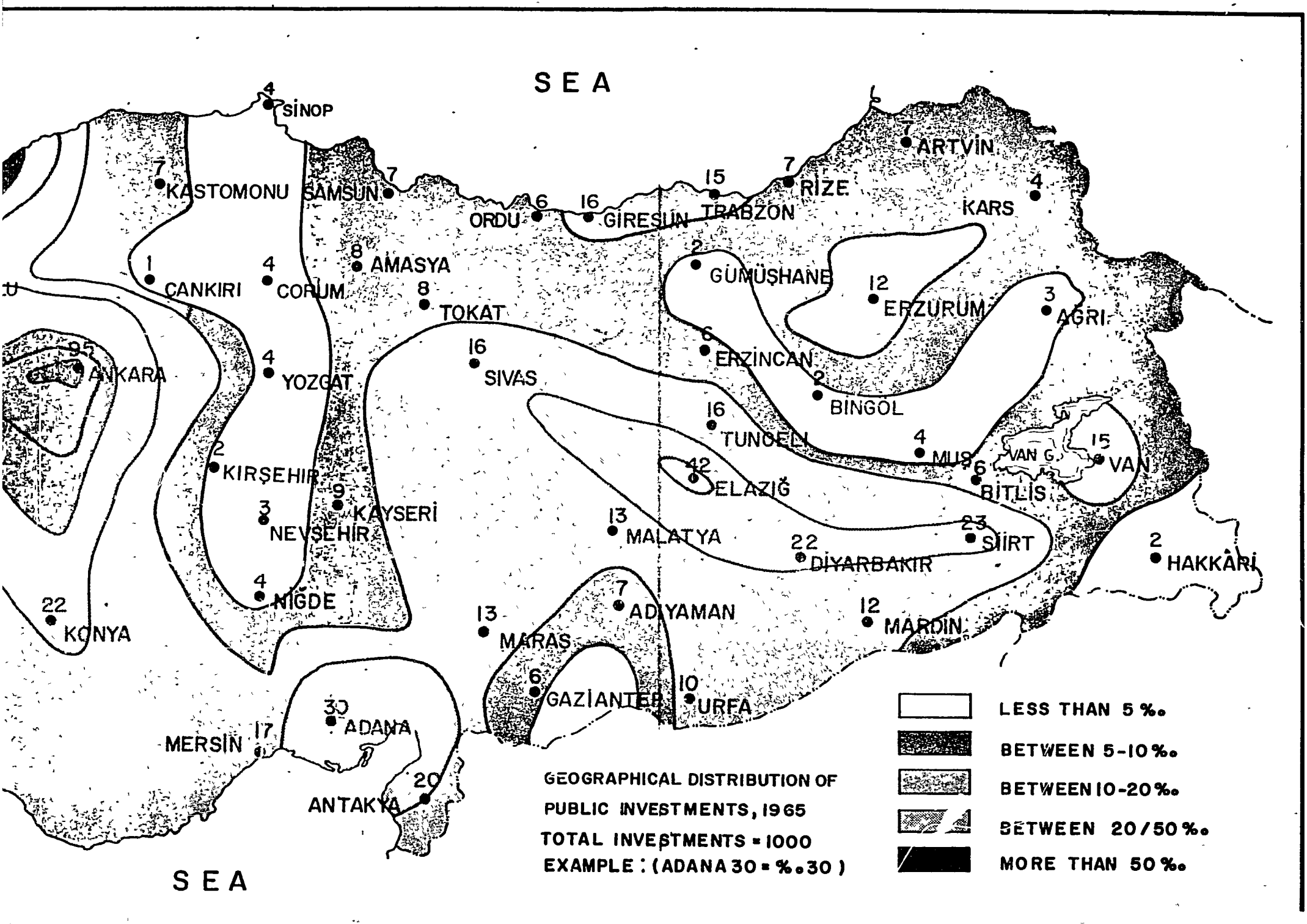
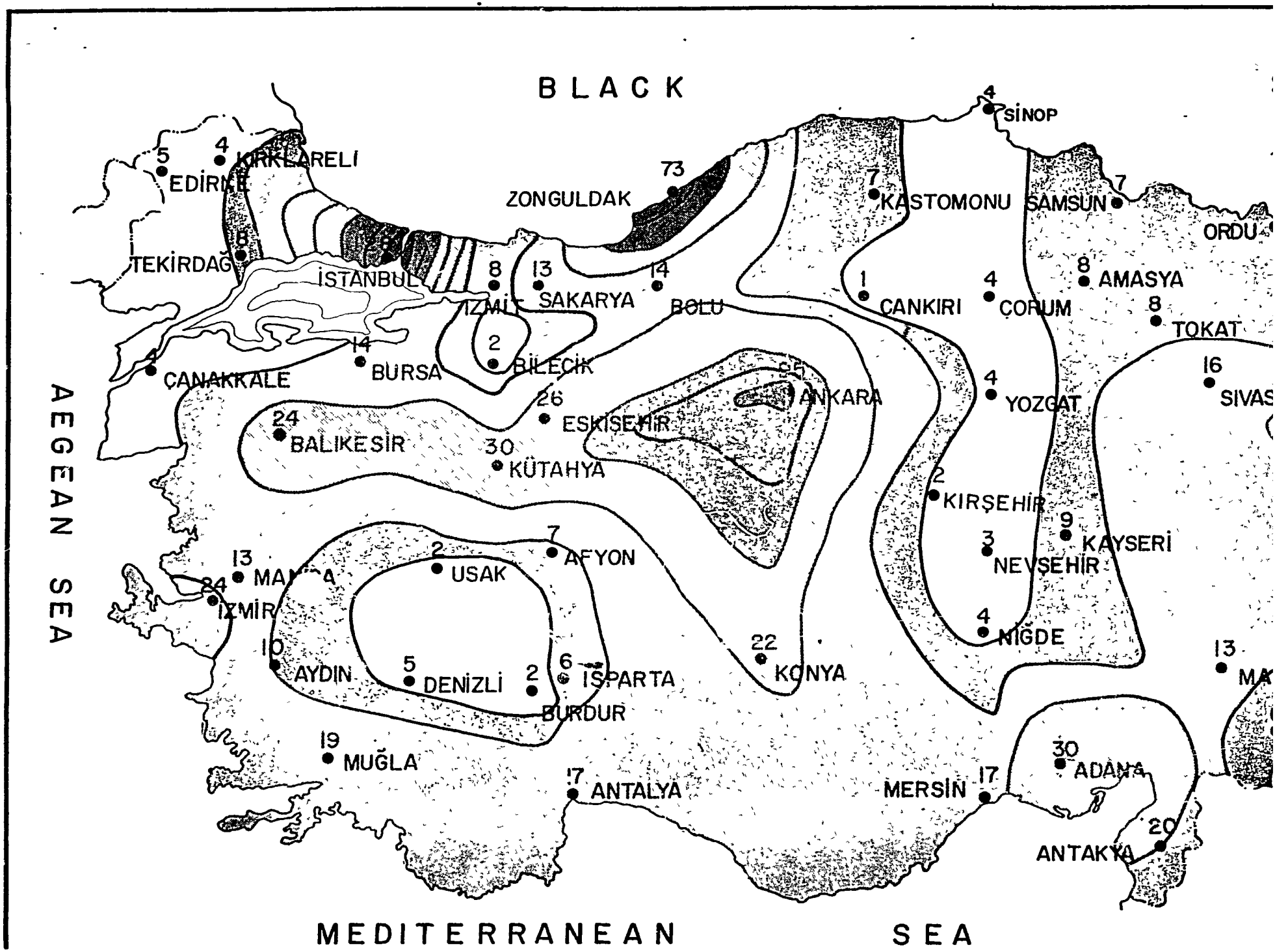

SEA
SEA
SİNOP 4
KASTOMONU 7
SAMSUN 7
ORDU 6
GİRESUN 16
TRABZON 15
RİZE 7
ARTVİN 7
KARS 4
CANKIRI 1
ÇORUM 4
AMASYA 8
TOKAT 8
GÜMÜŞHANE 2
ERZURUM 12
AĞRI 3
ANKARA 95
YOZGAT 4
SİVAS 16
ERZİNCAN 6
BİNGÖL 2
TUNCELİ 16
MUŞ 4
VAN G.
VAN 15
BİTLİS 6
KIRŞEHİR 2
ELAZIĞ 42
KAYSERİ 9
NEVŞEHİR 3
MALATYA 13
SİİRT 23
DİYARBAKIR 22
HAKKÂRİ 2
NİĞDE 4
KONYA 22
ADIYAMAN 7
MARDİN 12
MARAŞ 13
GAZİANTEP 6
URFA 10
ADANA 30
MERSİN 17
ANTAKYA 20
LESS THAN 5 ‰
BETWEEN 5-10 ‰
BETWEEN 10-20 ‰
BETWEEN 20/50 ‰
MORE THAN 50 ‰
GEOGRAPHICAL DISTRIBUTION OF
PUBLIC INVESTMENTS, 1965
TOTAL INVESTMENTS = 1000
EXAMPLE : (ADANA 30 = ‰ 30)

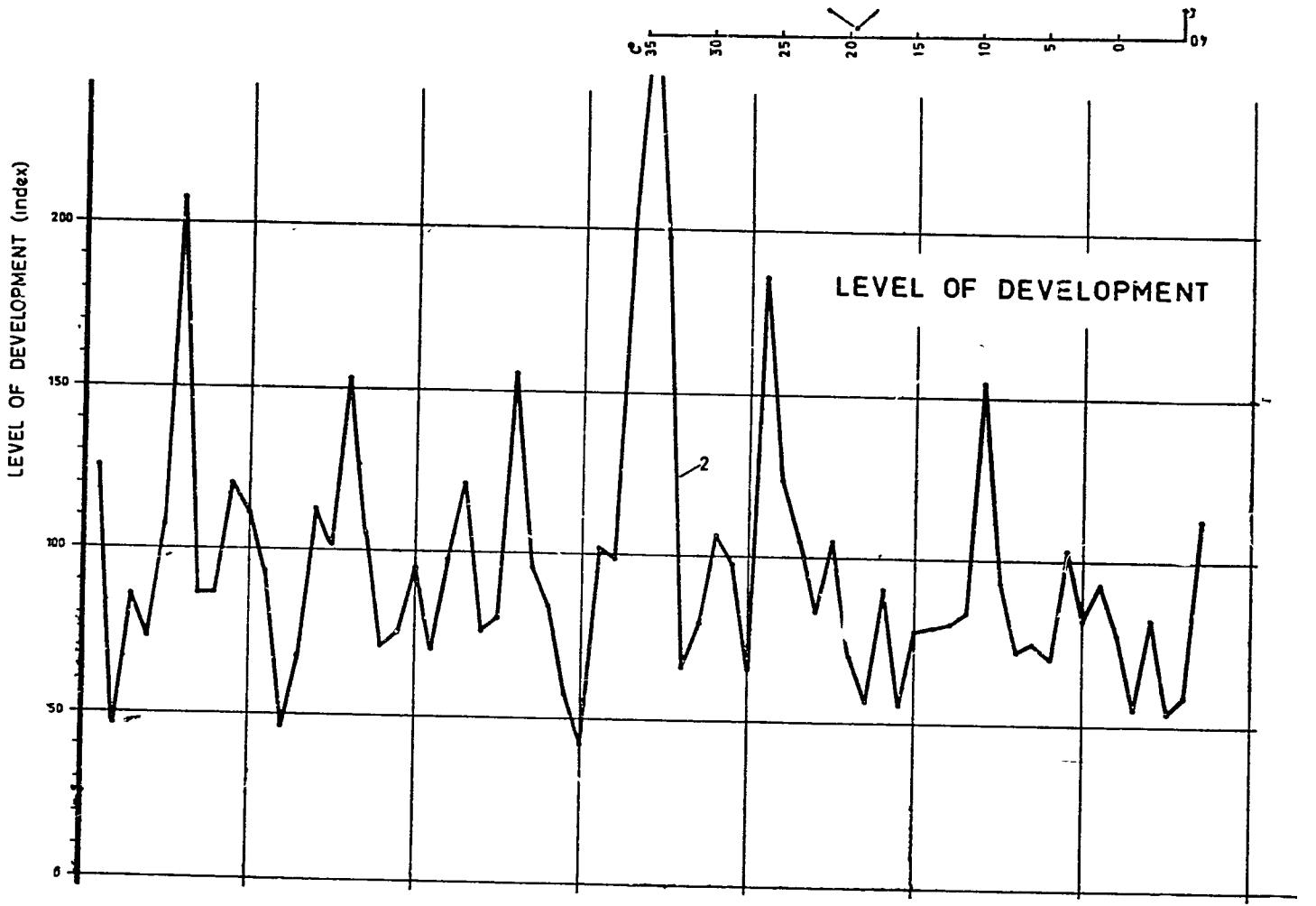
Fig. 1. — MAP SHOWING THE GEOGRAPHICAL DISTRIBUTION OF PUBLIC INVESTMENTS, 1965



the 1965 results shown in **Fig.** 1 are the same as those of 1963 and 1964, and have remained unchanged in 1966. Thus, we can take the 1965 results as a typical instance of the geographical distribution policy for public investments in the First Five-Year Plan period. **Fig. 1** gives us two results. First, that public investments are concentrated to a larger extent in the provinces of İstanbul, Ankara, and Zonguldak, i.e., a large part of public investments is allocated to these provinces. Secondly, that the smallest share of public investments is allocated to the provinces of Uşak and Denizli in Western Anatolia, and Bilecik in North-Western Anatolia. Similarly, the strip starting from the province of Sinop in the North and extending South over Kastamonu, Çankırı, Çorum, Yozgat, Kırşehir, Nevşehir, and up to Niğde, benefits very little from public investments This strip is wider in the North and becomes narrower towards the South, and covers a considerably large area. It represents the poorest region of Turkey with respect to natural resource availability. The population density on this strip is also low

Comparing between the per capita share of investments of regions where the maximum and minimum values occur, we find that in 1965 per capita point investments by the public sector were 293 TL in Ankara; 280 TL. in İstanbul; 56 TL. in Zonguldak. For the low-investment provinces, these values were 59 TL. in Denizli; 84 TL. in Bilecik; 80 TL. in Kastamonu; 22 TL. in Çankırı; 41 TL. in Çorum; 46 TL. in Yozgat; 42 TL in Kırşehir; and 69 TL. in Nevşehir. It can be observed that per capita investment levels are also minimum on the minimum iso-investment curves.

Since the share of public investments is small in economically underdeveloped regions and larger in richer regions, would it be possible to finance the economic development of underdeveloped regions, with a transfer of investments from the richer regions? In other words, how should the distribution of iso-investment curves be in order to secure an optimal overall development pattern? At present, the question cannot be answered; for the planners working on the preparation of the Annual Programs are not equipped with the tools of economic and social analysis that would enable them to make decisions on the geographical distribution of investments. The present practice in the preparation of Programs, is to include in the Program the investment projects proposed by all the public organizations, by classifying them according to the possibilities of finance. The investment proposals of the public organizations give the type of results indicated in **Fig. 1.** This investment distribution may be the


LEVEL OF DEVELOPMENT
LEVEL OF DEVELOPMENT (index)
200
150
100
50
0
2
35
30
25
20
15
10
5
0

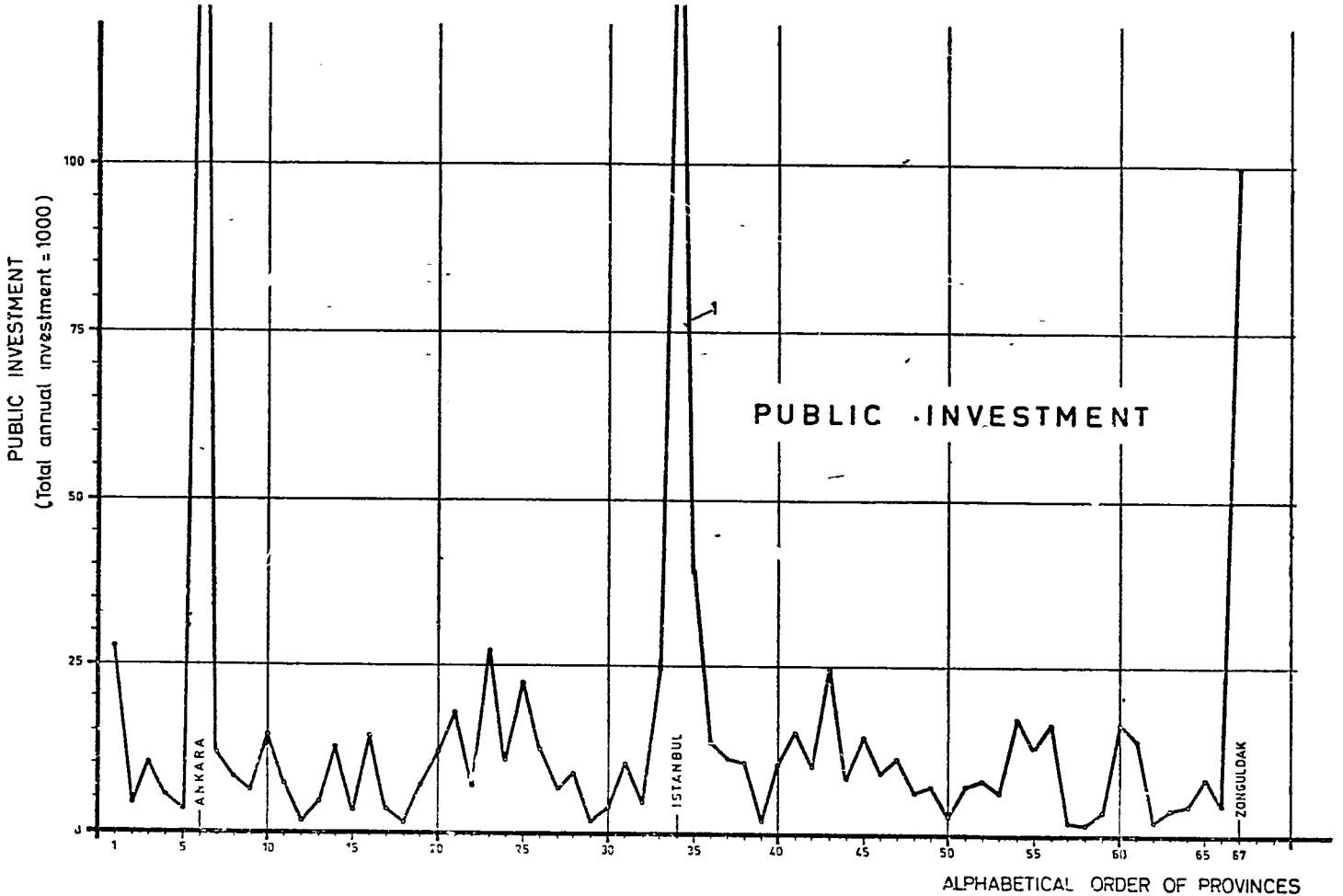


Figure 2 — Public Investments and Level of Development by Provinces
Diagram 1 — Public Investments by Provinces
Diagram 2 — Level of Development by Provinces

N. B. Provinces in Diagram 2 are ordered on the same scale as for Diagram 1.

most appropriate one, or it may be necessary to change it altogether; but, at present, nothing definite is known in this respect. What is needed is the availability, to planners, of the analysis and policy tools necessary to decide on this problem.

As long as investments are not distributed in a manner that will eliminate the regional imbalances, the population flow towards investment centres will continue The flow of population towards higher investment regions should be stopped or at least reduced, to be replaced by a flow of investments towards underprivileged regions. In other words, the transfer of certain investments, especially some large industrial investments, from places with the maximum value of investment to underdeveloped regions, can be a subject of analysis.

The diagrams showing that public investments have a smaller share in the economically underdeveloped provinces are given in **Fig. 2.** The 67 provinces are marked on the abscissa; diagram (1) shows the level of investment in each province, and diagram (2) the level of the development index in each province.[1] We observe that public investments occur mostly in the provinces where the development index has a high value, and least in the provinces where this index has a low value There is a striking similarity between diagrams (1) and (2). This similarity indicates, above all, that the investment policy in Turkey is such that investments are directed more towards the developed regions.

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1 The «development index» used was taken from a study conducted by the Social Planning Department of the State Planning Organization In this study, the per capita magnitudes of number of hotel beds, restaurant capacity, power consumption in industry, length of provincial highways, consumption taxes, number of radios, number of primary school teachers, number of vehicles, etc, for each province or sub-province were calculated, and using certain weighting procedures, a development index was defined For example, the weight of per capita number of radios was taken as 10, per capita municipal expenditures as 12, per capita restaurant capacity as 10, number of vehicles as 7, length of provincial highways as 4, etc All the weights add up to 1000, with economic indicators constituting 33 per cent of the total, while social indicators constitute 67 per cent In other words, the direct relationship between the development index and investments would seem to be quite weak, since two-thirds of the index has a social nature and is not directly related with investments Indeed, the fact that a strong relationship between investments and purely economic indices was not assumed in this study, renders the conclusions illustrated by **Fig. 2** all the more convincing

XV

A FOLLOW-UP STUDY: THE IMPLEMENTATION OF THE INVESTMENTS FORESEEN IN THE FIRST FIVE-YEAR DEVELOPMENT PLAN

by
N. ÖLÇEN*

INTRODUCTION

This paper is concerned with the methods of execution and the results obtained in the field of public investments The magnitude and sectoral distribution of public investments, the extent of realization of the investment targets, the bottlenecks encountered in the execution of the projects, as well as the relevant measures to remove them, are some aspects of the problem dealt with in the study The relationship between the size of projects and their foreign exchange requirements has also been analysed. Further, a comparison has been made between the projected and realized levels of consumption targets and production values in different sectors, as indicated in the Development Plan and revised in the Annual Programs Since the subject requires extensive research, the scope of the paper has obliged us to concentrate on a number of selected sectors. On the other hand, a brief review of private investments has been included in the study.

One feature of the problem which we might emphasize here is that the income elasticities of some commodities have changed con-

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siderably during the Plan period. This is due to a structural change resulting from the application of the Plan, and also probably to the acceleration of the industrialization movement. In fact, during the Plan period, price increases due to past inflationary policies were curbed, and stabilization was achieved. This situation has contributed to an increase in the investment propensity of the private sector.

The paper includes a brief outline of the methodology developed for the follow-up of public investments. This methodology is important in that within the existing institutional framework, it is possible to develop it further for use as an effective tool in the realization of public investments. As relevant statistical data increase and the errors involved decrease, it will be possible for us to develop a more efficient forecasting methodology for the estimation of the macroeconomic magnitudes and of the level of demand for investment goods.

I. FOLLOW-UP INVESTMENTS

1. Public Investments

a. General Situation. — When the State Planning Organization was established in 1960, there was an investment project portfolio of 10,528 million TL. in the public sector. In this, 2,765 million TL. worth of projects had already been executed. Today, in 1966, public investment projects have a total cost of 25,358 million TL. The investment expenditures envisaged in the 1966 Program for these projects total 7,516 million TL. In other words, it can be said that the average gestation period of public investment projects is about three and a half years.

It is not possible to consider all expenditures included in the Annual Programs as actual investment expenditures. Part of the programmed expenditures are non-investment (current) expenditures, e.g., personnel expenses, minor repairs, vehicle purchases, etc. Such items take up 10.5 per cent of the projected total expenditures of 25,358 million TL., although in the 1966 Program this share goes up to 17.5 per cent.

At the beginning of the Plan period, there were 1,015 projects in the public sector; at present there are 4,082. A great majority of these cost less than 5 million TL. each, with only 468 projects requiring outlays of more than 5 million. Of these 468 projects, however, many are industrial and power projects requiring quite large

outlays, so that these 468 projects account for approximately 19 billion TL. of the total projected expenditures.

The following projects, whose execution has already started, are typical, in terms of required outlays and projected production capacity, of these large-scale projects

a) **The 496 Km Batman - İskenderun Pipe-line,** which will carry 4 million tons of petrol annually and cost 300 million TL.;

b) **The İzmit Petro-chemical Complex,** which will produce 10,000 tons of polyethylene, 26,000 tons of polyvinyl chlorure, 7,000 tons of dodezil benzene and 30,000 tons of ethylene annually, and cost 346 million TL ;

c) **The Batman Vacuum Unit** which will cost 200 million TL.

d) **The Çayeuma Paper Mills,** which will produce 93,000 tons of kraft cellulose and 50,000 tons of sack kraft annually, and cost 187 million TL ,

e) **The Muğla Paper Mills,** which will produce 33,000 tons of cellulose and 30,000 tons of good quality paper annually, and cost 273 million TL ,

f) **The Giresun Paper Mills** which will produce 60,000 tons of mechanical pulp and 50,000 tons of newsprint annually, and cost 162 million TL.,

g) The 4 x 155 MW **Keban Hydroelectric Station** which will cost 3,100 million TL ,

h) The 3 x 100 MW **Hydroelectric Station** which will cost 500 million TL ,

i) The 2 x 38 MW **Kesikkopru Hydroelectric Station** which will cost 119 million TL ,, and,

j) The 2 x 110 MW **Anbarlı Fuel-oil Power Station** which will cost 386 million TL

The execution of these projects was started in 1963 and 1964.

The very large number of investment projects of all sizes makes it both difficult and time-consuming to follow up the execution. A detailed follow-up can only be carried out for those projects costing more than 5 million TL The distribution, with respect to size, of public investment projects costing more than 5 million TL. each is given in **Table 1.**

TABLE 1

THE DISTRIBUTION, WITH RESPECT TO SIZE, OF PUBLIC INVESTMENT PROJECTS GREATER THAN 5 MILLION TL

Size of Project '000 000 TL	1964 Program				1965 Program			
	Number of Projects		Cost ('000 TL)		Number of Projects		Cost ('000 TL)	
	Total	Requiring Foreign Exchange	Total	Foreign Exchange Requirem	Total	Requiring Foreign Exchange	Total	Foreign Exchange Requirem
5 - 15	286	77	3109	373	299	62	2652	238
15 - 25	72	36	1377	285	56	25	1187	227
25 - 50	41	24	1735	281	54	17	1811	262
50 - 100	22	15	1470	447	21	11	1365	378
Greater than 100 mil TL	37	32	10338	3668	38	28	12096	3585
Total	**456**	**183**	**18029**	**5054**	468	143	19113	4690

The principal conclusions to be reached from an analysis of the above table can be summarized as follows :

a) For projects greater than 50 million TL (cf. rows 4 and 5) foreign exchange requirements increase sharply. In other words, the ratio of the foreign exchange requirements of the project to total cost is greater for large projects than for small projects. For example, in 1965, foreign exchange requirements of investment projects costing between 15 - 50 million TL (cf. rows 2 and 3), are, on the average, 15 per cent of the cost, whereas for projects costing 50 - 100 million TL (rows 4 and 5) this ratio is about 30 per cent.

b) As the cost of the project increases, the **absolute number** of projects requiring foreign exchange also increases.

The distribution and the average investment realization ratios of public investments with respect to type of budget are given in **Table 2.**

The percentage of investments to be executed by the Budget administrations, has decreased from 32 per cent in 1963 to 23 per cent in 1965, whereas for the State Economic Enterprises this ratio has increased from 37 per cent to 42 per cent. The State Economic Enterprises are generally involved in industrial projects. Thus, two important conclusions can be drawn from a study of **Table 2 :**

a) The share of industrial investments (i.e. of projects undertaken by State Economic Enterprises) is increasing.

TABLE 2

PUBLIC INVESTMENTS OF VARIOUS INSTITUTIONAL GROUPS AND INVESTMENT REALIZATION RATIOS (r), BY TYPE OF BUDGET

Institutional Groups (By Type of Budget)	Programmed Investments					
	1963 (5231 Mil TL)		1964 (6401 Mil TL.)		1965 (7020 Mil. TL.)	
	Percentage Distribution of Investments	Realiz. Ratio (r)	Percentage Distribution of Investments	Realiz Ratio (r)	Percentage Distribution of Investments	Realiz. Ratio (r)
General Budget	32 2	0 87	26 6	0 84	23 3	0 82
Annexed Budget	25 6	1 02	23 0	0 86	30 5	0 79
Revolving Fund	5 1	0 91	3.9	0 86	3 8	0 85
State Economic Enterprises	37.1	0 87	46 5	0 67	42 [illegible]	0.73
Total Investments	**100.0**		**100.0**		**100.0**	
Average Real Ratio		0 91		0.78		0.77

b) As industrial investment projects have longer gestation periods and are more difficult to implement, the investment realization ratios are lower for the SEE's than for other institutional groups.

TABLE 3

SECTORAL DISTRIBUTION AND REALIZATION RATIOS OF PUBLIC INVESTMENTS

Sectors	1963 Programmed Investments (5,231 mil. TL.)		1964 Programmed Investments (6,401 mil. TL.)		1965 Programmed Investments (7,020 mil. TL.)	
	Distrib of Investm	Investm. Realizat Ratio	Distrib. of Investm	Investm Realizat Ratio	Distrib of Investm	Investm. Realizat. Ratio
Agriculture	15 9 %	r 0 90	18 4 %	r 0 85	21 0 %	r 0 80
Mining	6 8	0 88	7 9	0 67	8 6	0 94
Manufacturing	13.5	0 87	16 7	0 60	16 5	0.55
Power	8 4	0 91	11 8	0 76	12 4	0 76
Transport	23 6	0 95	20 0	0 75	19 0	0.78
Tourism	1.0	0 98	1 9	0 78	2 0	0 69
Housing	4 2	0 80	2 8	0 65	1 9	0 64
Health	2 8	0.76	3 1	0.87	3 4	0 82
Education	12.0	0 86	12 4	0 95	10 8	0 87
Other services	11 4	1 00	5.0	0 99	4 7	0 97
Total	**100.0**	**0.91**	**100.0**	**0.78**	**100.0**	**0.80**

The distribution by sectors and the realization ratios of public investments are given in **Table 3.** We observe that in 1965, 21 per cent of public investments were allocated to the primary sector, 37 per cent to the secondary sector, and 42 per cent to the tertiary sector. As can be seen from the table, the lowest investment performance is in the manufacturing sector, with **r** equalling 0.55. The realization, over the Program period, of only 55 per cent of programmed investments in the manufacturing sector is one of the most important factors hindering fast growth. The highest investment realization ratios are in agriculture and mining

b. The basic elements and problems of the Turkish investment policy. — In 1965, Gross National Product at current prices reached 73.165 million TL Total investments realized during the same year amount to 11,578 million TL. (Public organizations : 5,619 million TL , local governments and municipal administrations . 519 million TL ; and the private sector: 5,440 million TL.)

We observe that in 1965, investments constitute 15.8 per cent of GNP. The average propensity to save for the years 1961 - 1965 is given in **Table 4** below

TABLE 4

AVERAGE PROPENSITY TO SAVE, 1961 - 1965

In million TL. (current prices)

Years	GNP	Gross Investment	Average propensity to save
1961	49,080 9	7,368	S = 0 150
1962	55,248 4	7,470	0 135
1963	63,253 2	10,142	0 160
1964	67,691 4	10,488	0 155
1965	73,164 8	11,578	0 158

The relatively low value of the average propensity to save creates difficulties in attaining the 7 per cent growth rate foreseen in the Plan. As

$$\frac{I}{Y} = 0.16$$

and, $$\frac{\Delta Y}{Y} = 0.07$$

where I = investment and Y = the national income, the capital-output ratio should be

$$k = \frac{I}{y} = \frac{0.16}{0.07} = 2.30$$

With the existing sectoral distribution of investments, however, a capital-output ratio of 2.3, or a fortiori less, cannot be secured at present The principal reason for this is that, due to social necessities, the share of investments allocated to «un-productive sectors» such as health, education and services, is quite substantial. Thus, the contradiction which exists in the underdeveloped countries in an especially aggravated manner between the attainment of social and economic goals, makes itself felt in the case of Turkey also. In fact, the success of the planner lies in establishing the balance between social and economic goals while choosing investment projects that will produce as low a capital-output ratio as possible, this is what is meant by «investment policy».

If we compare the growth rates, during the planned period, of productive and unproductive sectors in Turkey, the growth rate of unproductive sectors will be found to equal or surpass the corresponding targets set in the Plan; whereas, although the target growth rate of productive sectors (primary and secondary sectors) was projected to be 6 9 per cent (cf. with the 7.2 per cent growth rate of unproductive sectors), we observe that the actual growth rate in the productive sectors has dropped as low as 2.87 per cent in 1964 and 2.16 per cent in 1965 (**Figure 1**). Paradoxically, the decrease in the share of the tertiary sector in total programmed investments between 1963 and 1965 (cf. **Table 3** above), has **not** been effective in increasing the growth rate of productive sectors. There are three reasons for this state of affairs. Firstly, the average gestation period of three years for investments, is too long for investment decisions to show their effects on the economy within the

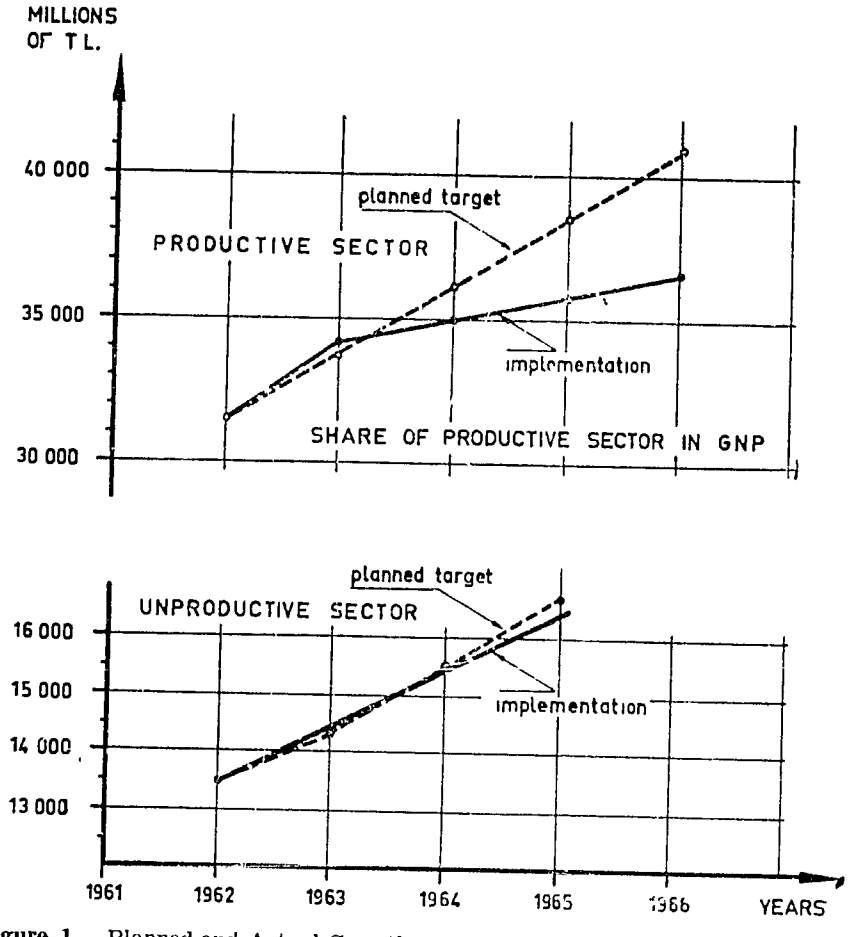

Figure 1 — Planned and Actual Growth in Productive and Unproductive Sectors

period in question. Secondly, investments in the **private sector** are mostly in housing, and compensate to a great extent for the falling trend in programmed investments. Finally, a significant portion of the resources released from the tertiary sector have been absorbed by the increases in the current expenditures of the state, due to collective bargaining expenditures, construction of large and luxurious general directorate office-buildings, etc.

We now go on to study the delays in the implementation of public sector investments

c. **The principal factors causing the retardation of public investments.** — Experience gained from the implementation activities of the first three years of the Plan indicates that hesitations and delays in taking prompt and efficient decisions constitute the basic

cause of retarded investments. As a matter of fact, this problem had attracted so much attention during the implementation of the first year that a special law **(Law No. 440)** was enacted to endow the administrators of State Economic Enterprises executing industrial projects, with greater independence in the taking of decisions. The law extended these powers even to such domains as price regulation, the preparation of projects, investment proposals, and choice of firms, thus dispensing with the approval of the concerned ministries. Nonetheless, administrators usually refrained from acting on their own initiative and preferred to acquire written approval from the related ministries, even in matters of minor importance These documents of approval, which were a kind of insurance policy against probable future responsibility, have caused, and continue to cause, great losses of time in decision - taking and action

Such delays are extremely costly in economic terms. At present, there are 1035 projects with a total value of 11,811 million liras in the investment protfolios of the State Economic Enterprises. Since there are, at present, 4082 projects worth 22,671 million TL. in the overall portfolio of the public sector, it can be calculated that the average magnitude of a project belonging to the State Economic Enterprises is 11 4 million TL, while the corresponding figure for General and Annexed Budgets is 3.15 million TL In other words, the State Economic Enterprises are involved in projects which are 3 5 times as large, on the average, as those of other public sector institutions, consequently, delays in decision-making influence negatively the investment performances of State Economic Enterprises to an extent considerably beyond what one would expect on the basis of the sheer **number** of the projects involved.

The second factor responsible for the retardation of investments is the fact that at the beginning of the planned period, there did not exist a sufficient number of adequately prepared investment projects incorporating realistic alternatives In fact, in 1962, the large industrial projects mentioned above (and that are being implemented today), did not even exist in idea form, and the preparation of feasibility reports had just begun to be discussed. Implementing the Plan and conducting project research at the same time has evidently proved to be an exceedingly difficult task, leading to frequent bottlenecks of various kinds

Thirdly, institutions which, before 1962, were involved solely in production or managerial activities and did not have the experience

necessary to undertake the implementation of large projects, were forced to become investing institutions as well during the planned period. SEKA (the General Directorate of Cellulose and Paper Factories) and the P T T Administration, can be cited as examples. Almost «overnight», one might say, these organizations were faced with the task of preparing and executing investment projects, each worth 300 million TL or more, and the setting up of the necessary organization has evidently taken a considerable amount of time, causing important losses

Another significant factor is related to credits When with the beginning of the implementation period, problems related to the acquisition of foreign credits arose, it was observed that many institutions did not know when, where, and how to apply for internal and external funds. It was further seen that the foreign credit institutions concerned failed to submit any indications about how, with what documents, and under what conditions such applications were to be made Although some improvements have taken place in the meantime, many important difficulties persist, especially with regard to the consortium credits, causing important delays *

A fifth difficulty derives from the fact that there is not a sufficient number of properly organized firms, in the construction sector in Turkey, that can undertake the execution of large industrial projects Further, the construction sector suffers from a number of chronic problems. Construction firms are legally unable to obtain medium and long-term credit against the machinery and equipment they own According to **Law No. 2490** on contracting and tenders, «the State is obliged to award the construction to the lowest bidder». However, it is always possible for a second firm to undertake the construction after the tender, by making a 15 per cent reduction in the price offered by the lowest bidder. Under these conditions, the lowest bidder seeks to make up for his losses during construction by creating legal conflicts and demanding compensation, or is forced to complete the construction only after a long duration of time The Plan has proposed that **Law No. 2490** be amended to remedy these problems; no measures have been taken as yet.

As will be shown in greater detail below, the fact that there is a three-month lag between the fiscal year and the program year,

* For a more detailed account of these problems, cf the article on «Foreign Economic Relations in the Plan» (Ed 's Note)

should also be considered among the factors retarding investments. Whereas the Annual Programs become effective in January, the Administrations of General and Annexed Budgets are forced to wait for the parliamentary approval in March, before they can make disbursements for new projects

Finally, it can be said that the investment programs are not prepared realistically. The usual assumption of completion within three years may not be justifiable, four or five years would seem to be a better estimate But the administrators of investing organizations have a tendency, for a number of reasons, to underestimate the duration of programs.

Of course, other structural factors, too generalized to deserve specific mention here, such as lack of cash resources, bureaucratic procedures, etc , also contribute to the retardation of investments.

d. The cost of importation of technology. — Since it is outside the scope of this paper, we shall not deal with the aggravation of the employment problem, due to the application of modern technology in Turkey It should be made clear, however, that the cost of modern technology imported from the West is extremely high. Generally speaking, there is a definite ratio between the foreign exchange requirements of the machinery, equipment, and technical services imported for an industrial installation, and its total cost. Although this ratio may vary according to the nature of the project and the sector it belongs to, it is logical that it should not show great variations within a given sector In other words, the foreign exchange requirements ratio, obtained by dividing the foreign exchange requirements of the project by the total cost of the project, should not increase with total costs, or, at least this increase should be gradual.

However, we observe that in Turkey, especially in large projects requiring foreign technology, once the total cost exceeds 70 - 80 million TL (cf **Fig. 2**) the foreign exchange requirements ratio increases sharply This sharp increase in the foreign exchange requirements is due to the fact that the prices of the machinery and equipment are marked up by the exporters with an «innovation» factor. Thus, the disbursements for modern technology become excessively high As an example, the situation in the textiles-food-drinks-tobacco sector is shown in **Fig. 2.** The same phenomenon is observed in the paper and printing industry **(Fig. 3).** The study of the projects in the portfolio of the State Economic Enterprises shows that the sectors form two distinct groups. In the first group,

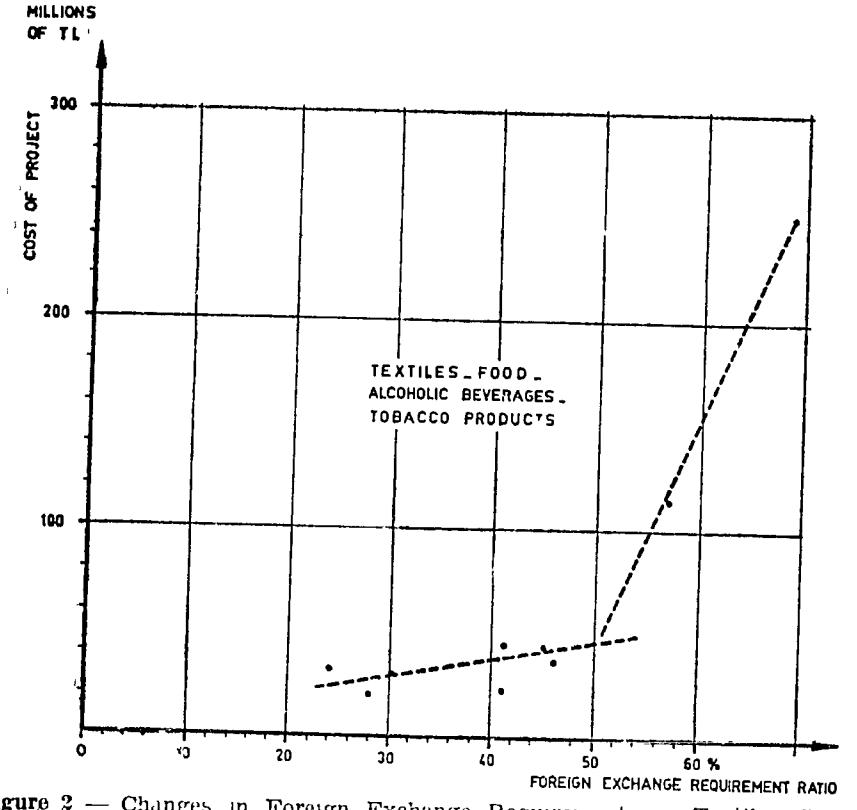

Figure 2 — Changes in Foreign Exchange Requirements in Textiles, Food, Alcohol Tobacco

the lowest foreign exchange requirements ratio is observed in mining, and this increases sharply towards the metal, metallurgy and machinery industries. The second group includes the food, textile, paper, petrol and chemical industries, and the foreign exchange requirements ratio reaches its highest value in the petro-chemical industry (**Fig. 4**).

It is clear that the unwarranted discrepancies among these ratios (especially within a sector) can only be effaced through fair credit arrangements, which in turn implies that Turkey needs to have a strong bargaining power while making credit agreements with the Western World. However, the underdeveloped countries, which have a chronic deficit in their balance of payments, usually use a substantial part of the credits they obtain for repaying the accumulated interest and capital installments of their foreign debts. Thus, the bargaining power of these countries that need foreign exchange direly is generally very weak, and Turkey is no exception to the rule. In 1963, the deficit on the current account of the

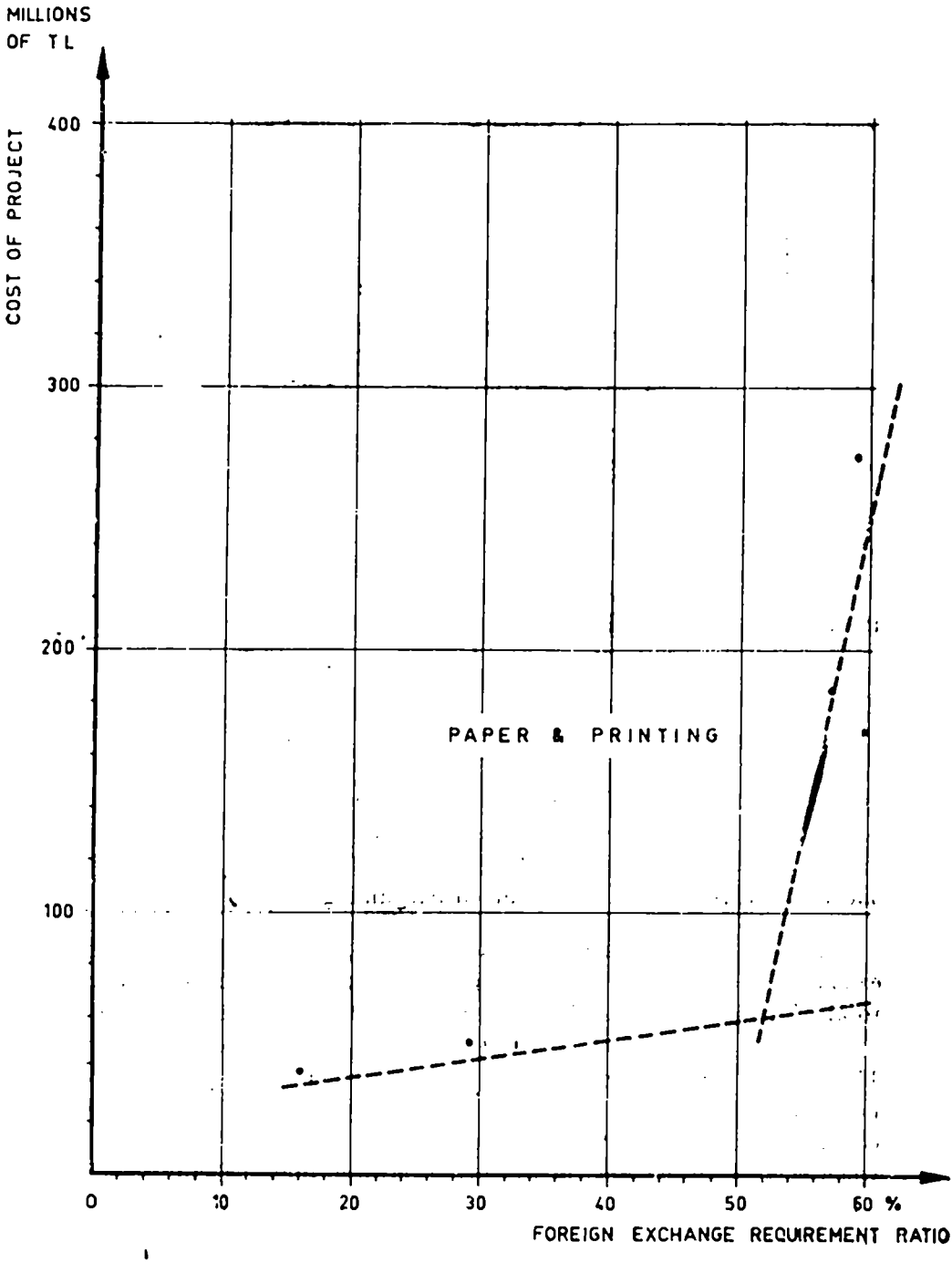

Figure 3 — Changes in Foreign Exchange Requirements in Paper and Printing Industry

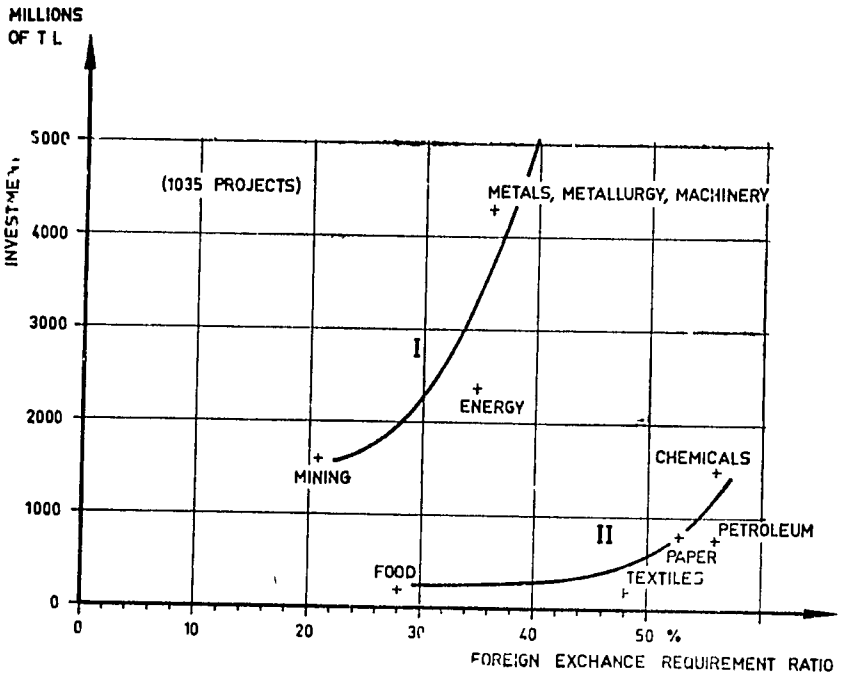

Figure 4 — Foreign Exchange Requirements Ratio in State Economic Enterprise Investments

Turkish balance of payments was 280 million dollars but in the same year, the accumulated interest and capital installments of her foreign debts amounted to 114 million dollars. It is not surprising that costs remain high under these conditions However, this is certainly not an excuse to renounce attempts at improving the situation, even in the short run, through more determined bargaining.

e. **Foreign credits in large industrial projects.** — The foreign exchange requirements of twelve large industrial projects worth a total of 2 billion TL and their implementation conditions in 1965 are given in **Table 5** below. These industrial projects require about 1169 million TL worth of external funds, which corresponds to 55 per cent of their total cost. The amount of foreign exchange that could be obtained for these projects during the two years since 1964, when they were included in the Program, was only 236 million TL. and the annual realization ratio was 10 per cent. We can say that the difficulties encountered in obtaining the required foreign exchange have considerably hindered the realization of these projects.

TABLE 5

THE FINANCIAL CONDITIONS OF SOME SELECTED LARGE INDUSTRIAL PROJECTS, 1965.

In million TL.

Large Industrial Projects	Program		Implementation	
	External Funds	External Internal Funds	External Funds	External Internal Funds
Petro-Chemical Complex	244	305	—	45 8
Sodium Industry	66	106	0 2	1.1
Nitrogen Extraction Project	232	349	1.4	10 7
Borax and Boracic Acid Proj	13	82	4 3	26 1
Trabzon Cement Factory	28	75	14.1	31 8
Yarimca Ceramic Plant	32	90	70.2	117 0
Karabük Foundry Project	52	130	62 4	91 4
Karabük Steel Construction	36	80	54 1	100.7
Maltepe Cigarette Factory	100	164	13 4	58 6
Çaycuma Sack Kraft Factory	108	187	14 3	19.1
Mugla Sulphate Cellulose	160	273	—	1 1
Giresun Printing Paper Mill	98	162	—	0.1

2. Private Sector Investments

The follow-up of private sector investments in the State Planning Organization started with the manufacturing sector in 1964, on a sampling basis. There were 6322 private industrial firms, 2347 of which were sent questionnaire-forms; only 67 answered returns were received because some of the addresses did not exist at all or were not operating any longer, and 980 questionnaires were sent back without answers

On the other hand, the 1965 survey, whose results are briefly discussed below, gives a clearer idea about private sector investments.

The investment level foreseen in the 1965 Program for the private sector was 5 billion TL; this target was exceeded by 440 million TL The sectoral distribution of the total investments of 5,440 million TL by the private sector is as follows : agriculture, 11 per cent; mining, 3 4 per cent; manufacturing, 24 per cent; power, 1.1 per cent; transactions, 8.2 per cent; tourism, 2.2 per cent; housing, 46 per cent, health, education and other services, 4.1 per cent. If this distribution is compared with that in the public sector, it can be seen that the private sector has allocated excessive investments to housing, whereas its ratio of investments in the manu-

facturing sector is the same as that of the public sector. The allocation of 46 per cent of private sector investments to housing is evidently their most objectionable aspect, in the light of the Plan targets.

II. THE FOLLOW-UP OF PRODUCTION AND CONSUMPTION

The follow-up of the production and consumption targets foreseen in the Plan and the Programs, is especially useful for the preparation of the following year's Program; for if the production or consumption targets have not been attained, it becomes necessary to calculate the following year's target accordingly If the consumption target has not been attained, this may have been due to three basic reasons which should be reconsidered for the following period : (1) the failure of the relevant investing agencies to implement their programs properly; (2) Structural changes in the level of demand (e.g. changes in the income and price elasticities); (3) Inconsistent calculation of the demand forecast in the Program

So far, no adequate methodology has been developed to analyse changes in the Plan variables, in function of these three basic considerations. The practice is to determine, in the Program, the production target of a sector according to the previous year's level of demand, whereas what should be done is to obtain analytically the demand functions in the various sectors and to base the projections on these functions

In a research study that we conducted, it was observed that the income and price elasticities of demand for some commodities had changed considerably between 1960 and 1965, as compared with the 1950 - 60 period. Commodities whose income elasticities have changed, as well as some whose elasticities have remained stable are given in **Table 6.**

The income elasticities of investment goods have increased during the planned period, compared to 1960, while the income elasticities of consumption goods have decreased considerably. Thus, it is clear that there has been a change in the structure of consumption during the planned period. We can consider this change, from the point of view of economic development, as one of the manifestations of the industrialization process

It is rather difficult to make consumption and production projections for such a transitional period of industrialization. Usually,

TABLE 6

INCOME ELASTICITIES OF DEMAND FOR SOME SELECTED COMMODITIES AND RELATED CHANGES

Goods with Increased Income Elasticity			Goods with Unchanged Income Elasticity			Goods with Decreased Income Elasticity		
Type of Commodity	Income Elasticity		Type of Commodity	Income Elasticity		Type of Commodity	Income Elasticity	
	1950 - 60	1960 - 65		1950 - 60	1960 - 65		1950 - 60	1960 - 65
Coal	0 564	1 093	Lignite	2 05	1 952	Sugar	1 306	1 016
Cement	0 910	3 335	Gasoline	1 40	1 654	«Raki»	1 568	0 178
Round Iron	0 815	1 623	Motorine Oil	3 045	3 079	Beer	0 968	0 626
Profile Iron	1 190	2 310	Electricity	2 138	2 049	Tea	2 363	0 496
						Tobacco	1 012	0 742
						Cotton Cloth	1 833	0 701

the production targets foreseen in the Plan are not realized. If the overall rate of change is over-estimamed, and too high a target is set and realized in certain sectors only, there is the possibility of development of idle capacity. This may lead to increases in stocks, which is especially undesirable for a country like Turkey where monetary resources are scarce. On the other hand, setting a less than full capacity target, leads to a shortage of goods and causes price increases. Indeed, in order for the balance between supply and demand to be reasonably well established, the planner must be very well acquainted with consumption functions So far, in the S P.O. this balance work has been done more on the basis of intuition and common sense, with studies based on the qualitative reports of sectoral experts, than on the basis of solidly-grounded quantitative analyses

As an example, let us consider the production of iron and chromium ore (the mining sector). A year-by-year comparison between the Plan and Program targets and the actual realization rations is made in **Fig. 5.** In chromium extraction, the 1963 Plan target of 450 million tons was not attained and only 200 million tons of chromium were extracted The target in the 1964 Program was consequently revised and reduced to 300 million tons; however, the actual extraction for that year turned out to be 397 million tons. The same phenomenon of over-estimation and under-estimation in respective years is observed in iron-ore extraction

In **Fig. 6,** the generation of electric power is given Realization is some 15 per cent lower than the targets foreseen in the Plan and Programs

A similar situation is observed in the demand for glass **(Fig. 7).** In 1963, the level of demand was below the Plan target, the 1964 Program was revised and a lower target was set, but the 1964 realization has exceeded the target

All of these examples show that although previous years' results are considered in the preparation of Programs, important divergences still exist In order to make more reliable forecasts during the preparation of the Programs, it is necessary to analyse the factors affecting demand and their variations, i.e., to make an analysis of fluctuations

In the present planning methodology, demand functions (e.g. price and income elasticities) are calculated from time series to

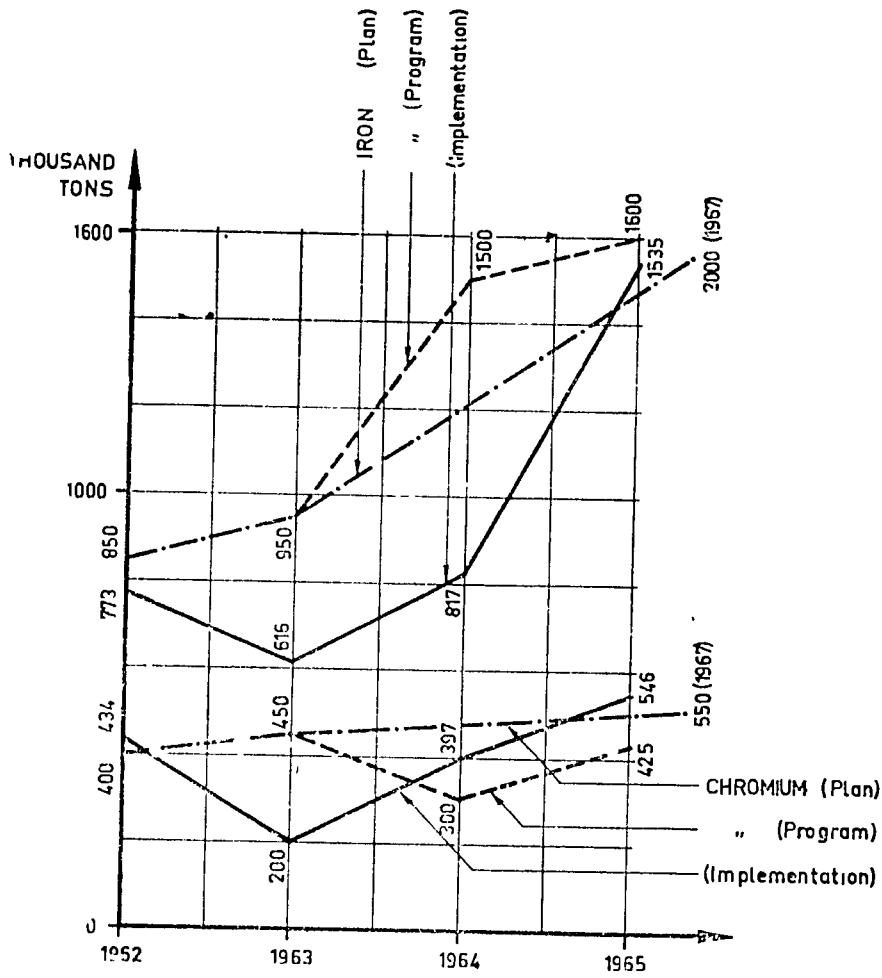

Figure 5 — Production Targets and Realization Magnitudes in the Mining Sector (Iron ore and Chromium)

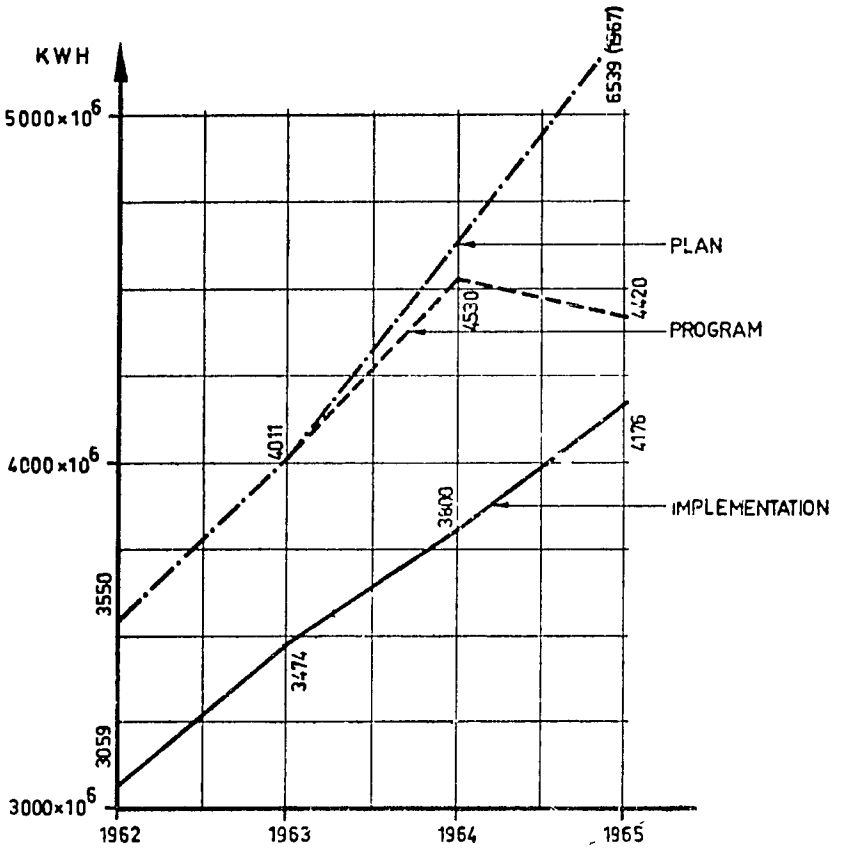

Figure 6 — Consumption Targets and Realization Magnitudes in Electricity

make demand projections into the future, and production are determined accordingly. In such projections, it is not possible to make estimates about possible variations in income elasticity. Thus, in the case of goods with increased income elasticities, there is under-production with respect to the demand, and a shortage occurs in the market This tendency has led to a serious crisis in the Turkish cement and iron markets. A great majority of the correspondence from the provinces to the State Planning Organization contains complaints about the insufficiency of the amounts of cement and iron available This is normal, since, as indicated in **Table 6,** there have been very important increases in the income elasticities of these commodities The planner is in need of a methodology that

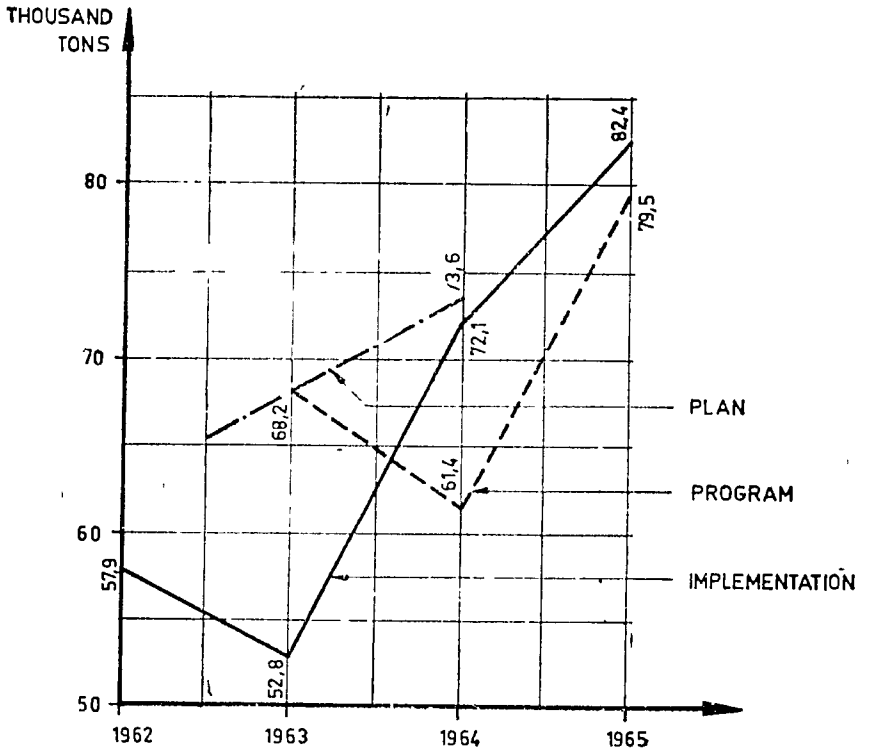

Figure 7 — Demand Projections and Implementation Magnitudes in Bottles, Glass and Window Glass

will allow a sound estimation of such structural changes (i.e., analysis of fluctuations)

In short, the follow-up of the Plan implementation has shown that a successful performance is as much a function of more powerful planning techniques as of a set of implementation procedures and measures suitable to the needs of economic development.

Appendix: THE METHODS USED IN THE FOLLOW-UP OF THE IMPLEMENTATION OF THE PLAN

The follow-up of the Development Plan and the Annual Programs is conducted in the following two ways: (1) Follow-up of the ratio of realization of public sector investment levels at the end of the period, and, (2) Follow-up of the ratio of realization of sectoral consumption and production targets at the end of the period.

This method of double follow-up is related only to the activities in the public sector, the activities of the private sector are analysed only for the industrial sector, through questionnaires requesting information on the capital movements and managerial activities in the sector. The following account will deal with the methodology behind the procedures used for the public sector, as well as with some related problems

1. The Methodology

The follow-up of public investments by investing agencies and sectors is conducted on the basis of monetary values. Although this method of monetary analysis does not give the best results, it serves as an indicator of the investment performances of investing public agencies An «investment realization ratio» has been defined for this purpose, it is the ratio between the investment level foreseen, in the Program period, for an investing agency and the expenditures that are actually made

Every three months, a report from each investing agency, indicating expenditures on investment projects, is submitted to the S P O In these reports, the agencies indicate in detail, the amounts of expenditure made on every project out of internal and foreign funds, and the stage of development of the project

The basic principle behind the evaluation method we use is to group public agencies according to the investment realization ratios If the volume of investment by public agencies with investment realization ratios of r_i is I_i % of total investment, this means the following I_i % of the investments by the public agencies is realized at r_i % If r_i is indicated on the abscissa, and I_i on the ordinate, we obtain a curve like the one in **Fig. 8.** This curve has one maximum and two minima If all the agencies had realized their investments by 100 per cent, i e if all the expenditures had been made for the volume of investment foreseen in the Plan, a vertical

line passing through $r_i = 1$ would have been obtained As all the agencies do not have the same performance, this line shifts towards the left and takes the form shown in **Fig. 8.** Obviously, it is best to be at a point as near North-West as possible In the comparison

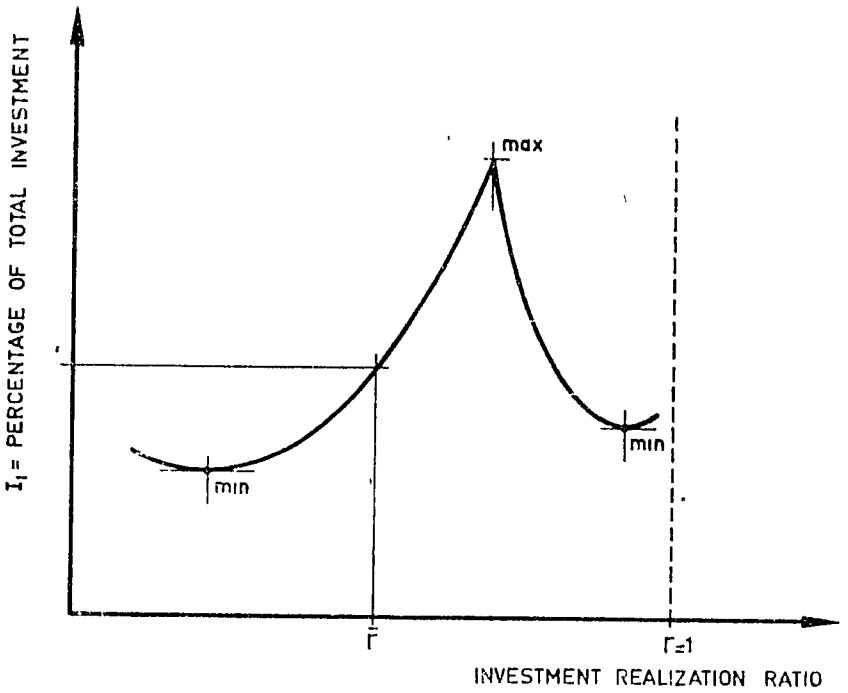

Figure 8 — Investment Performance Curve for Public Agencies General Shape

of the increases or decreases in the investment performances of agencies from one year to another, this North-Western position can be used as a criterion Let us consider two situations where the average investment performances are equal (**Fig. 9**). As the maximum of curve 2 is at a more North-Western position, it corresponds to a higher investment performance This example, given in **Fig. 9**, indicates that the average realization ratio cannot by itself produce correct results in the comparison of conditions.

In practice, in order to draw the investment performance curve in **Fig. 8**, it is sufficient to group the agencies according to their investment realization ratios (e g. of 0—0 30, 0.30—0 40, 0.40—0.50, etc), and to calculate, for each group, the percentage of total investments by agencies in the overall investment.

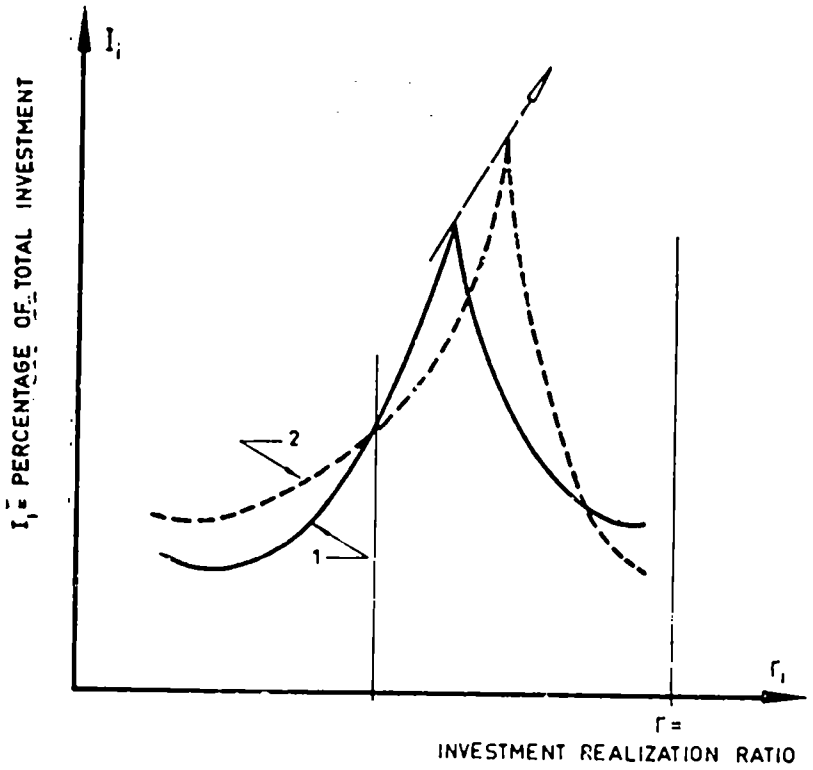

Figure 9 — Investment Performance Curve for Public Agencies equal average investment ratios differentiated by the North - Western position criterion

2. The Investment Performance of Public Agencies

The 1964 investment realization conditions in General and Annexed Budget institutions is given in **Table 7.** According to this table, investments from General and Annexed Budgets, programmed for 1964, amount to 3456 million TL. The realization ratio for 0.67 per cent of the total investment is less than 0.30; for 0.17 per cent, between 0.30 0.40, for 1.63 per cent, between 0.40—0.50, etc The investment performance of a large part (45.98 per cent) of the investments by these agencies is between 0.80—0.90. The results of **Table 7** are shown graphically in **Fig. 10,** which also includes the results of 1965. If the investment performance curves of the two years are compared, it is observed that the maximum point of 1965 is at a more North-Western position than that of 1964.

TABLE 7

INVESTMENT REALIZATION CONDITIONS IN GENERAL AND ANNEXED BUDGET INSTITUTIONS, 1964

In thousand TL.

Group No.	Title of Institution ↓ / Investment Realization Ratio →	less than 30 %	30 - 40 %	40 - 50 %	50 - 60 %	60 - 70 %	70 - 80 %	80 - 90 %	90 - 100 %	over 100 %
1	Ministry of Tourism	23000								
		23000								
2	General Directorate of Border and Shores		6004							
			6004							
3	Ministry of Finance			54500						
	Ministry of Labour			2000						
				56500						
4	Ministry of Foreign Affairs				800					
	State Airports Administration				27053					
					27853					
5	Ministry of Reconstruction and Resettlement					82076				
	University of Istanbul					15520				
	Istanbul Technical University					16960				
	General Directorate of Monopolies					118287				
						232943				
6	Deed Cadastre General Directorate						4500			
	Ministry of National Defence						171725			
	Ministry of Agriculture						176518			
	General Directorate of Foundations						22000			
	Aegean University						3780			
	General Directorate of Forestry						55215			
							433938			
7	Ministry of Public Works							636691		
	State Meteorology General Directorate							4822		
	University of Ankara							19425		
	State Water-Works General Directorate							927108		
	State Sample Farms General Directorate							1020		
								1589066		
8	Prime Ministry								6052	
	Ministry of Education								417537	
	Ministry of Health and Social Assistance								17078	
	General Directorate of Land and Resettlement								14815	
	General Directorate of Highways								539237	
	Ministry of Industry								90320	
									1085039	
9	State Institute of Statistics									1390
	Ministry of Customs and Monopolies									50
	Ministry of Transportation									500
										1940
		[illegible]	[illegible]	[illegible]	0.29 %	6.74 %	12.58 %	45.98 %	31.39 %	0.06 %

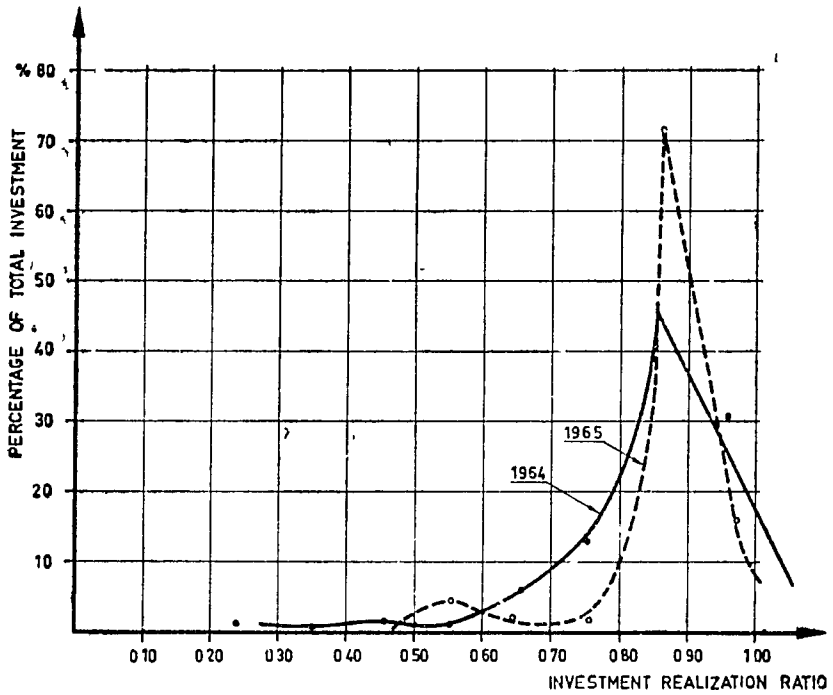

Figure 10 — General and Annexed Budget Institutions Investment Performance Curve

The investment performance curve of the State Economic Enterprises is more compressed as compared to that of General and Annexed Budgets (**Fig. 11**). The reasons for the low investment performance by the State Economic Enterprises have been discussed above

3. Pre-Estimation of Investment Realization Ratios

The investment performances of public agencies, as indicated in the quarterly reports, can be used to define a regression line for every agency, with respect to time. If t defines time (months), the regression calculations give the following results :

For General Budgets :

$r = 7.688\ t - 20.932 \qquad R = 0.998$

For Annexed Budgets :

$r = 8.916\ t - 30.639 \qquad R = 0.997$

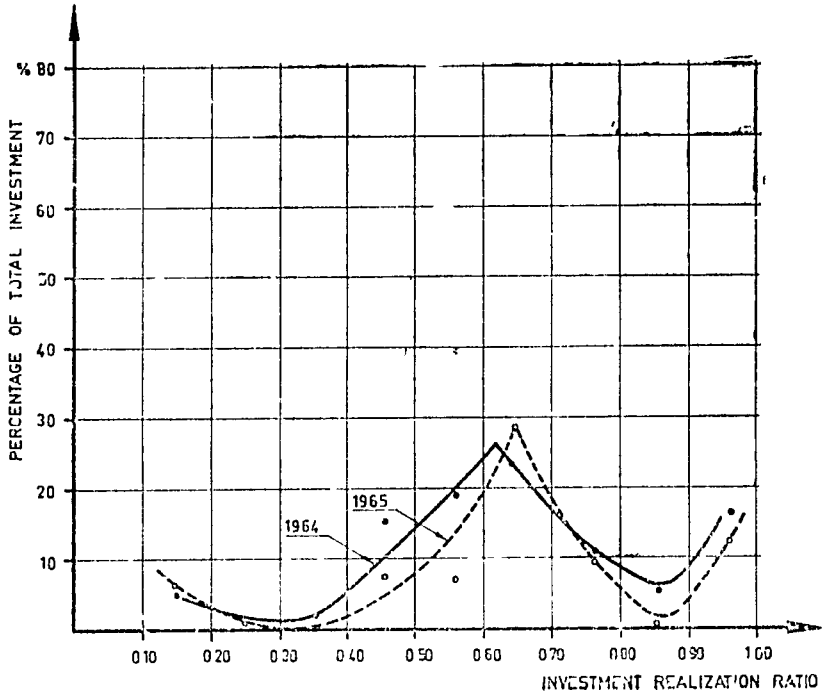

Figure 11 — State Economic Enterprises Investment Performance Curve

For the State Economic Enterprises :

$\mathbf{r} = 8.033\ \mathbf{t} - 21\ 257 \qquad \mathbf{R} = 0.996$

If the investment realization ratio in the **k** periods before period **t**, denoted with $\mathbf{r}_{t-k}$ is known, the value of $\mathbf{r}_t$ for period **t** can be obtained, e g. for General Budgets :

$$\mathbf{r}_t = \mathbf{r}_{t-k} + 7\ 688\ \mathbf{k}$$

The investment expenditures, obtained from the quarterly reports of all public agencies are evaluated, and an estimate of the realization ratio for the end of the 12-month period is calculated from the above relationships.

The analysis summarized above brings out another important reason for delays in investments Let us assume that all the physical measures necessary have been taken. Will it then be possible for **r** to be equal to 1 ? The above relationships show that in the case of General Budgets, for instance, this is not possible unless for $\mathbf{r} = 100$ per cent, $\mathbf{t} = 16$ months. This means that investment

expenditures from the General Budget require a period of $t = 16$ months. However, the Program period is 12 months only; thus there is a forced delay of four months in between. This delay is 2½ months in the case of investment from the Annexed Budget and 3 months for the State Economic Enterprises.

How does this delay arise? Let us take the case of the General Budget Administrations as an example, where

$$r = 7.688\ t - 20.932,$$

it is clear that even for $r = 0$, $t = 3$ months. This derives from the fact that no disbursements are made during the first three months after the launching of the Annual Program, because the Program period and the Budget period are different. The Program is made in January, but public agencies have to wait till March before they can make any expenditures. If the Program year and the Budget year are assimilated, increases will be observed in investment performances.

The regression lines used in the pre-estimation of investment performances of agencies are given in **Figures 12, 13, and 14.**

4. The Drawbacks of the Monetary Follow-up Procedure

The most important drawback to a follow-up of investments through monetary expenditures is, undoubtedly, the fact that the expenditure, indicated as a target in the Program, can not be always identified with the physical investment which it generates. Even if the expenditures for an investment project in the Program are realized 100 per cent, that investment project may not have been completed. In this case, while the physical investment has **not** been realized, it is considered so in monetary terms. This is a serious shortcoming.

In order to remedy this shortcoming, a study is being conducted on the correlation between monetary expenditures and the use of investment goods (cement, re-inforced concrete, iron, bricks, fuel oil, etc.) that make up the physical expenditures. With the completion of this study, it will be possible to follow up the use of materials, along with monetary expenditures, and thus increase the efficacity of the methods described above.

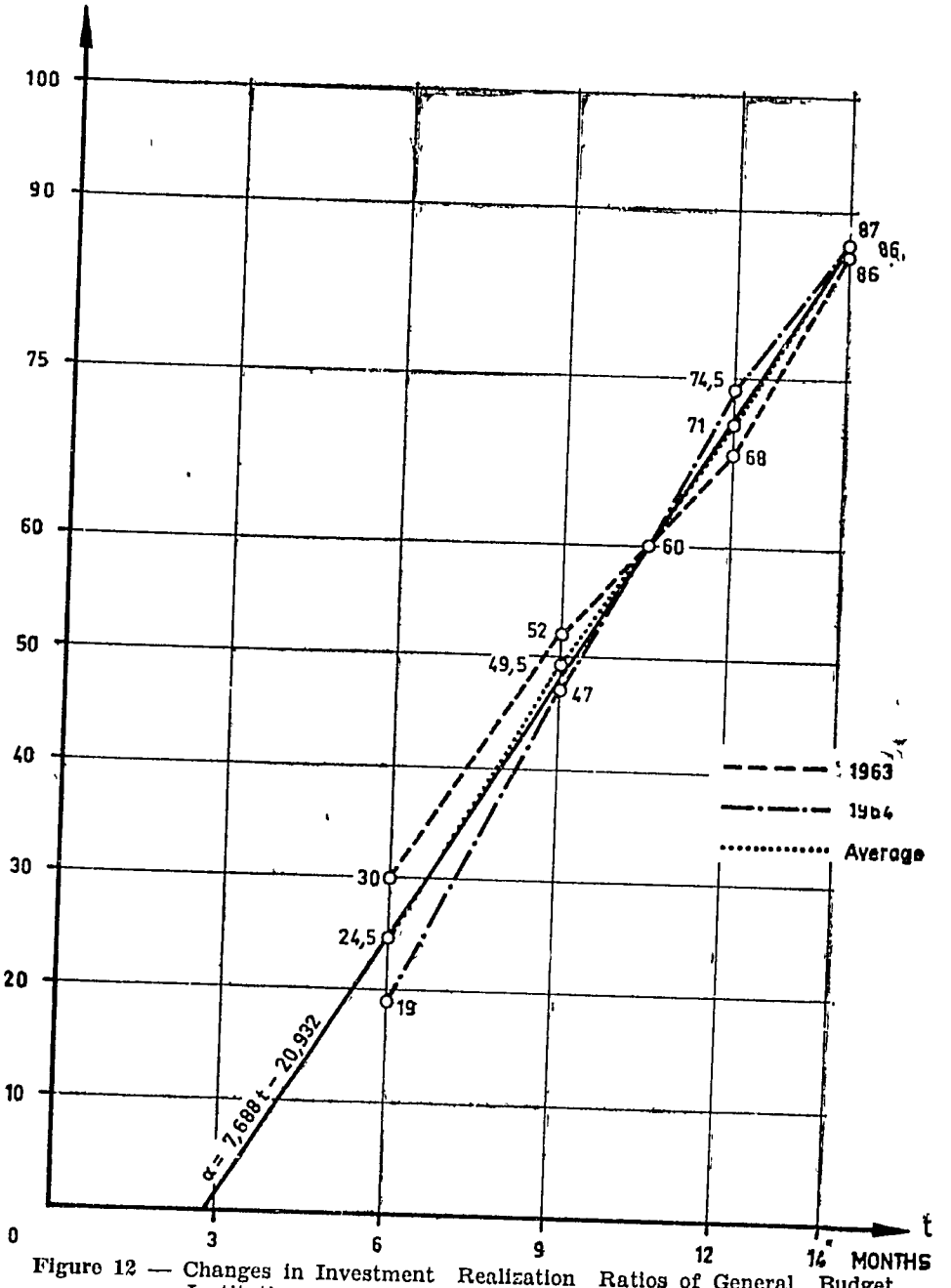

Figure 12 — Changes in Investment Realization Ratios of General Budget Institutions

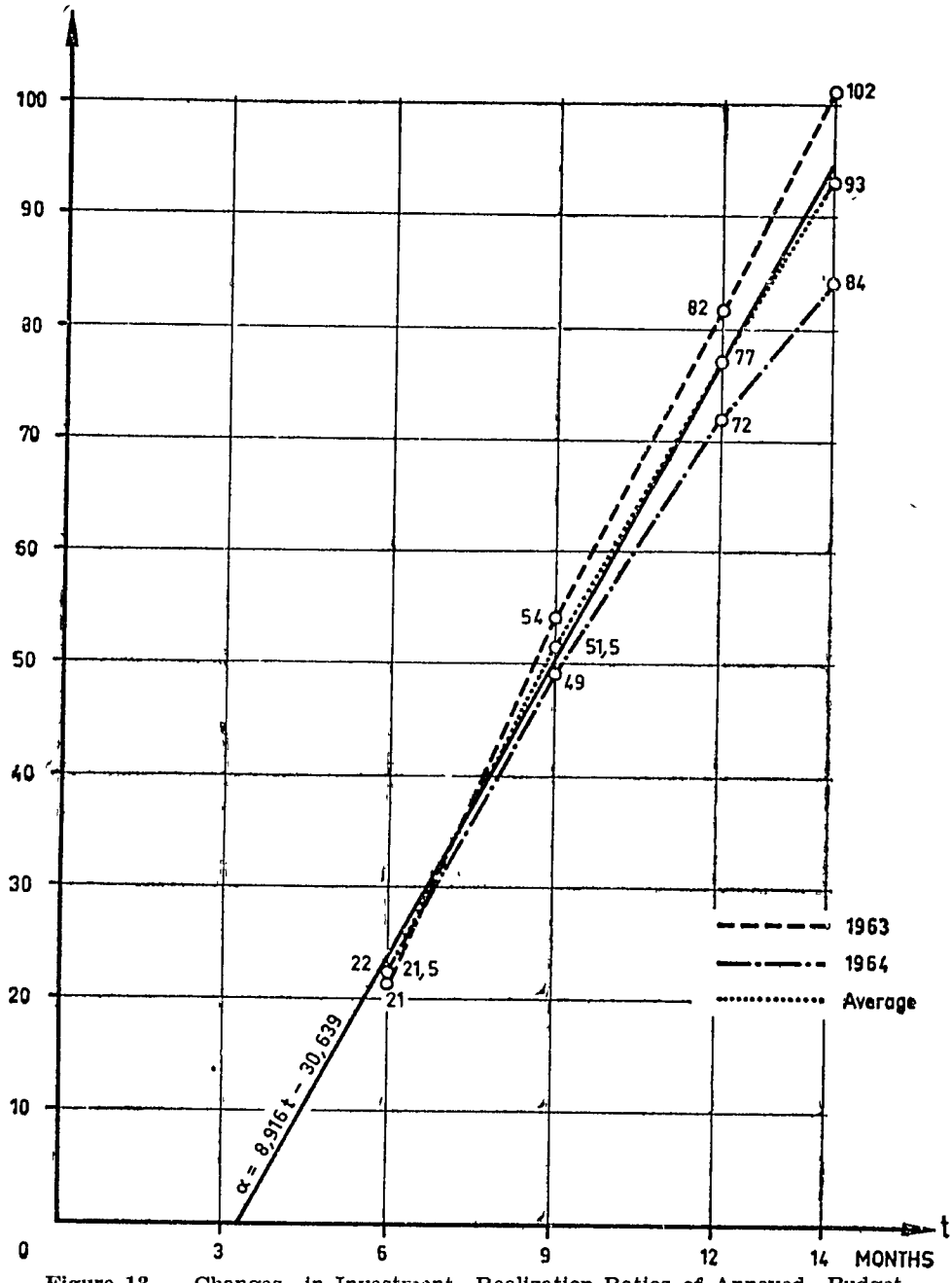

Figure 13 — Changes in Investment Realization Ratios of Annexed Budget Institutions

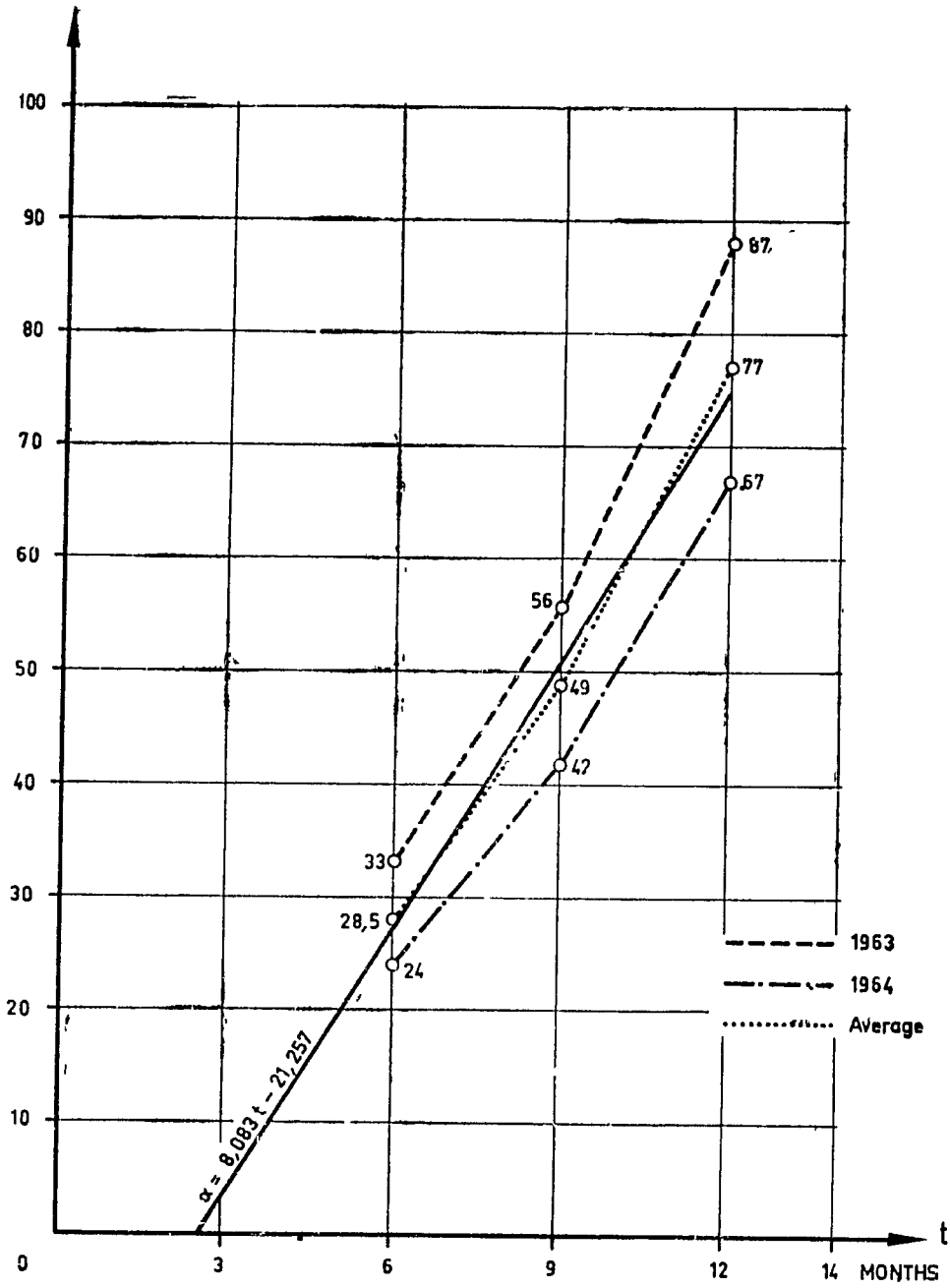

Figure 1[6] — Changes in Investment Realization Ratios of State Economic Enterprises

APPENDICES

(The appendices which follow are a revised version of the translations which appeared in «**Introducing Turkey's State Planning Organization**», S.P.O , Publication No. 3, Ankara, 1963).

Appendix I: LEGAL PROVISIONS CONCERNING THE ESTABLISHMENT AND FUNCTIONING OF THE STATE PLANNING ORGANIZATION

A. Provisions of the Turkish Constitution relating to Planning and the State Planning Organization.

B. Law concerning the Establishment of the State Planning Organization.

C. Law concerning the Enforcement and Preservation of the Integrity of the Long-term Plan.

Appendix II: RESOLUTION ADOPTED BY THE HIGH PLANNING COUNCIL ON THE OBJECTIVES AND STRATEGY OF THE DEVELOPMENT PLAN

Objectives and the Strategy of the Plan.

Appendix I: LEGAL PROVISIONS RELATED TO THE ESTABLISHMENT AND FUNCTIONING OF THE STATE PLANNING ORGANIZATION

A.: Provisions of the Turkish Constitution relating to Planning and the State Planning Organization

ARTICLE 41 — The regulation of economic and social life:

Economic and social life shall be regulated in a manner consistent with justice and the principle of full employment, with the objective of assuring for everyone a standard of living befitting human dignity.

It shall be the duty of the State to encourage economic, social and cultural development through democratic processes, and to enhance national savings, to give priority to investments promoting public welfare, and to draw up development projects, in order attain this end.

ARTICLE 129 — Development:

Development Projects and the State Planning Organization:

Economic, social and cultural development will be based on a plan. Development shall be carried out according to this plan.

The organization and functions of the State Planning Organization, the principles to be observed in the preparation, execution, application, and revision of the plan, as well as the measures necessary to prevent changes tending to impair the unity of the plan, shall be regulated by special legislation.

B.: Law concerning the Establishment of the State Planning Organization

Law No. 91 Date of Issuance. September 30, 1960

Establishment

ARTICLE 1 — A State Planning Organization is hereby established under the Prime Ministry. The Prime Minister shall exercise his administrative control over the Organization through a Deputy Prime Minister

Functions

ARTICLE 2 — The functions of the State Planning Organization are indicated as follows

a) To assist the government in determining economic and social objectives and policies, through the compilation and evaluation of exhaustive data on all types of natural, human, and economic resources and potentials in the country,

b) To make recommendations to and act in a consultative capacity for the ministries, with a view to securing the coordination of ministerial activities relating to economic policy;

c) To prepare long and short-term plans for the realization of the objectives to be adopted by the government;

d) To advise on the improvement of the organization and functioning of government offices and agencies as well as of local administrations concerned to assure successful execution of plans;

e) To follow up the implementation of the Plan, evaluate it, and make revisions where necessary,

f) To propose measures which will encourage and regulate the activities of the private sector in harmony with the goals and objectives of the Plan

Organization

ARTICLE 3 — The Planning Organization shall consist of the High Planning Council and the Central Planning Organization.

ARTICLE 4 — The High Planning Council shall be composed of the Prime Minister (or the Deputy Prime Minister), three minis-

ters to be elected by the Council of Ministers, the Under-secretary for Planning, and the Heads of the Economic Planning, the Social Planning, and the Coordination Departments.

The functions of the High Planning Council shall be to assist the Council of Ministers in determining economic and social policy goals, and to study the prepared plans before they are submitted to the Council of Ministers in order to check their conformity with the determined goals and their degree of sufficiency.

ARTICLE 5 — The Under-secretary for the State Planning Organization shall be attached to the Deputy Prime Minister, and shall be responsible for the administration of the activities of the Central Planning Organization.

ARTICLE 6 — The Central Planning Organization shall consist of the following units:

The Economic Planning Department,
The Social Planning Department;
The Coordination Department.

ARTICLE 7 — The Economic Planning Department shall consist of sections charged with the elaboration of long-term plans, annual programs and financing and sector programs, and of permanent and ad hoc special committees of experts. Its function shall be to effect all necessary studies and prepare the various long and short-term plans and programs of a general and/or regional character

ARTICLE 8 — The Social Planning Department shall consist of research and planning sections, and of permanent and ad hoc special committees of experts Its function shall be to study the social problems of the country and to prepare long and short-term plans with a view to aiding their solution

ARTICLE 9 — The Coordination Department shall consist of a financial and legal measures section, a research and analysis section, and a publications and public relations section. Its functions shall be:

a) To determine and recommend administrative, financial, and legal measures in order to facilitate the implementation of plans in government organizations and in the private sector,

b) To follow up and coordinate the implementation of plans and programs, and to this end, to call meetings of high-level representatives of different offices and organizations whenever necessary;

c) To receive and consider the quarterly reports of executive agencies on the implementation of plans or programs, to present the results to the persons concerned, and to follow up the implementation of the measures necessary to secure harmonious action.

d) To assure that studies on organization and methods be given priority in areas where the implementation of plans and programs is retarded.

Preparation of Plans

ARTICLE 10 — Collection of information :

The Planning Organization shall cooperate closely with the Central Statistical Office in the execution of its duties. The Planning Organization may call on all governmental departments and organizations and other persons and institutions for information which it deems necessary for planning.

It shall be incumbent on all departments and organizations and other persons and institutions from which information is demanded, to make such information available in the shortest time possible.

Any data containing business secrets shall be safeguarded in strict confidence.

ARTICLE 11 — Cooperation:

The Planning Organization shall establish close cooperation with the Ministries in order to collect information, prepare plans, and follow up their implementation.

ARTICLE 12 — Determination of economic and social goals and policies:

a) The basic problems to be dealt with in the determination of economic and social goals and policies shall be discussed and decided in the High Planning Council.

b) The principles thus established shall be promptly discussed and decided on in the Council of Ministers.

ARTICLE 13 — Preparation of the long-term plan:

The Prime Minister (or the Deputy Prime Minister) shall instruct the Under-secretary for Planning to prepare a long-term plan and annual plans in accordance with the principles adopted by the Council of Ministers The Planning Organization shall prepare the long-term plan first.

ARTICLE 14 — The adoption of the long-term plan:

The High Planning Council shall meet in not later than one week after the submission of the long-term plan to the Prime Ministry (or the Deputy Prime Minister's Office). The Council shall examine the plan, and a report to the Council of Ministers showing whether or not the plan conforms to the basic goals previously. After being examined and approved by the Council of Ministers the plan shall be submitted to the approval of the legislative body.

ARTICLE 15 — Preparation and approval of annual programs:

Annual programs shall be prepared by the Central Planning Organization, and sent to the High Planning Council. After due consideration the Council shall submit the programs, along with a report, to the Council of Ministers The annual programs shall become definitive on the approval of the Council.

The annual programs shall be prepared prior to the budgets and the work programs The basic principles adopted in the annual programs of the Planning Organization shall be observed in the preparation of budgets and work programs

ARTICLE 16 — The implementation of the plans shall be reviewed periodically, and the results obtained and essential measures of a complementary nature shall be submitted in the form of regular reports to the Council of Ministers

Miscellaneous Provisions

ARTICLE 17 — Experts employed on contract basis·

If found necessary, employment may be given to native and foreign experts from among the positions shown in List 1 attached to this law, to work on a contract basis in the capacities of Under-secretary, Department Heads, advisors, section chiefs, experts or junior experts, or Secretary General to the Under-secretary.

The Council of Ministers shall decide on the salaries to be paid to persons under contract

ARTICLE 18 — Personnel to be sent to other countries:

Those personnel of the State Planning Organization to be sent to foreign countries in order to increase their knowledge, experience,

and specialization shall not be not subject to Clause (b) of Article (1) of Law No. 4489, which states that personnel to be sent to foreign countries must have worked satisfactorily for at least two years in their respective departments .

ARTICLE 19 — University Personnel

University faculty members and their assistants may be employed by the State Planning Organization In such cases the indemnity rights of faculty members and assistants paid in accordance with the last paragraphs of Articles 32 - 38 of the University Law shall not be prejudiced or disadvantageously affected

ARTICLE 20 — The Planning Organization may contract for the services of local and foreign persons and institutions for such activities as research connected with planning operations, other studies, and project surveys

ARTICLE 21 — Rules and Regulations

Matters relating to the implementation of this Law shall be governed by Rules and Regulations

ARTICLE 22 — The personnel and salary schedule shown in the attached List 1 is hereby annexed to the section of the Prime Ministery of List 1 under Law 3556.

Appointments to this staff shall be subject to Article 6 of Law 3556

TEMPORARY ARTICLE 1 — The staff shown in the attached List 2 is hereby annexed to the section of the Prime Ministry of List D under the General Budget Law for the 1960 Fiscal Year

TEMPORARY ARTICLE 2 — The necessary expenses of this organization shall be covered by the Prime Ministry budget for the 1960 Fiscal Year In order to cover the new arrangements made for this purpose, the Minister of Finance is hereby authorized to make the necessary transfers

ARTICLE 23 — This Law becomes effective from the date of publication.

ARTICLE 24 — The Council of Ministers is hereby delegated to enforce the provisions of this Law.

LIST No. 1

Central Planning Organization

D. Type of Employment		Number	Amount of Salary (TL.)
1	Under-Secretary	1	2,000 00
2	Department Heads (Specialized Positions)	3	1,750.00
2	Advisors (Specialized Positions)	3	1,750.00
2	Section Chiefs (Specialized Positions)	8	1,750 00
2	Senior Experts (Specialized Positions)	10	1,750 00
3	Junior Experts (Specialized Positions)	10	1,500 00
4	Junior Experts (Specialized Positions)	10	1,250 00
2	Secretary General to the Under-secretary	1	1,750.00
3	Archives and Documentation Chief	1	1,500.00
5	Archives and Documentation Assistant Chief	1	1,100 00
6	Secretaries to Department Heads	3	1,500.00
4	Statisticians	3	1,250 00
5	Clerks	2	1,100 00
6	Clerks	3	950.00
9	Statistical Clerks	3	600 00

LIST No. 2

1	Stenographer-Typist (Speaking a foreign language)	3	1,250 00
1	Interpreters	3	1,250.00
2	Clerks - Typists	11	1,100 00
2	Draftsmen	2	1,100.00
9	Office Boys	8	400.00

(From the **Official Gazette**, October 5, 1960)

C.: Law concerning the Enforcement and Preservation of the Integrity of the Long-term Plan

Law No. 77 Date of Enactment: Oct. 16, 1962

Submission of the Long-term Plan to the Turkish Grand National Assembly

ARTICLE 1 — The long-term plan after being approved by the Council of Ministers in compliance with the provisions of Article 14 of Law 91, dated September 30, 1960, shall be submitted by the Prime Minister to the President of the Turkish Grand National Assembly for ratification by the National Assembly.

Discussion of the Long-term Plan in the Turkish Grand National Assembly

ARTICLE 2 — 1. The long-term plan shall be discussed in the Joint Planning Committee of the Turkish Grand National Assembly. This Committee shall be composed of the members of the Joint Budget Committee of the Turkish Grand National Assembly elected in accordance with Article 94 of the Constitution

2. The Joint Planning Committee shall consider the long-term plan within twenty-four hours at the latest after its submission and shall vote on it within twenty days at the latest, whereafter the plan shall be referred to the Plenary Session of the Senate.

3. The Plenary Session of the Senate shall discuss the text and vote on it within six days at the latest. After the plan has been discussed and approved by the Senate, it shall be referred immediately to the Joint Planning Committee.

4. The Joint Planning Committee shall debate the resolution of the Senate within a maximum of three days, decide upon it, and refer the plan immediately to the Plenary Session of the National Assembly.

5. The National Assembly shall debate the plan within a maximum of eight days and decide upon it

The decision of the National Assembly shall be final.

6. The following procedure shall be followed in the discussion and voting of the long-term plan by the Joint Planning Committee, the Senate and the National Assembly.

a) The plan shall be discussed without interruption in the Joint Planning Committee, the Senate and the National Assembly.

The plan shall be discussed only once in the Senate and the National Assembly and the report of the Joint Committee shall serve as the basis for discussion

b) The discussions in the Joint Committee, the Senate and National Assembly shall be limited to an overall discussion and shall not cover individual clauses.

c) In the Joint Planning Committee, those amendments which are considered by the Government as not impairing the intergrity of the plan, shall first be voted on and adopted by the simple majority of the members present.

Amendments which are considered by the Government to impair the integrity of the plan shall be treated as motions demanding the return of the plan with justifications and shall be debated and voted upon as provided in paragraph (d).

d) After the overall discussion of the plan in the Joint Planning Committee and the amendments mentioned in subparagraph 1 of Paragraph (c) have been voted on, the motions demanding the return of the plan to the Government with justifications shall be debated and the justifications of the motions shall be put to vote one by one.

The motions demanding the return of the plan, approved by the simple majority of all the members of the Joint Planning Committee, shall be returned to the Government together with the plan.

The Government shall amend the plan in accordance with the motions on which there is an agreement between the Government and the Joint Committee and inform the latter of the motions with which it shall find itself in disagreement The Joint Committee shall indicate this in its report.

The quorum in the Joint Planning Committee shall be the simple majority of all the members

e) After the overall discussion of the plan, the report of the Joint Committee in the Senate and National Assembly, the motions for the return of the plan to the Government and the motions approved by the Joint Committee but rejected by the Government shall be debated and voted on individually.

On each of these motions only the Joint Committee, the Government and the first signatory of the motion demanding the return of the plan or another signatory designated by him, shall be allowed to defend their justification

At the end, a new debate shall be opened on those motions for the return of the plan, the reconsideration of which has been decided.

In this debate also, only the Joint Committee, the Government and the first signatory of the motion or another signatory designated by him shall be allowed to defend their justification

At the end of this debate all the motions for the return of the plan shall be put to vote individually.

After all the motions demanding the return of the plan have thus been put to vote one by one in the Senate in accordance with the previous paragraph, the plan shall be voted on as a whole and, together with those motions for the return of the plan which have been accepted, shall be referred to the Joint Planning Committee in accordance with the provisions of paragraph 3

The motions for the return of the plan shall be put to vote one by one in the Plenary Session of the National Assembly (in accordance with sub-paragraph 5 of paragraph 6 e) and if any of the motions for the return of the plan are approved, the plan shall be returned to the Government together with these motions.

Taking into consideration the motions for the return of the plan as approved by the National Assembly, the Government shall make any amendments which it considers appropriate in the plan and shall inform the plenary session of the National Assembly thereof with a report.

If none of the motions for the return of the plan are approved by the National Assembly or after the report on the changes mentioned in the previous sub-paragraph has been debated, the plan shall be put to vote as a whole.

Conformity of Drafts Laws and Motions with the Long-Term Plan

ARTICLE 3 — 1 The committees and joint committees of the legislative assemblies shall examine whether the bills and motions referred to them together with the relevant texts and the amendments submitted on those draft laws, proposals and texts are in

conformity with the long-term plan and in case of their non-conformity, shall reject them.

2. The Presidents of the Senate and the National Assembly shall finally refer all motions and proposals which they consider to be related to the long-term plan to the Planning Committee. The draft laws and proposals shall also be referred to the Planning Committee if the Government or the Plenary Session consider it necessary.

The Planning Committee of the National Assembly shall be composed of those Members of the National Assembly who are members of the Joint Planning Committee of the Grand National Assembly; and the Planning Committee of the Senate shall be composed of the members of the Senate who are members of the same joint committee.

Besides the draft laws and proposals mentioned in subparagraph 1 of the previous paragraph, the Planning Committees of the National Assembly and the Senate shall examine the draft laws and proposals entailing increases or decreases in public expenditures and incomes or the relevant articles of such draft laws and proposals of which the main provisions are of this nature, and they shall also perform any other duties entrusted to them by their respective by-laws.

3. The Planning Committees of the National Assembly and the Senate shall indicate any matters in the reports and texts of other committees which they consider as failing to conform to the long-term plan in force and amend the text accordingly. In such cases, the debates in the plenary sessions shall be based on the report of the Planning Committees. Nevertheless, in cases where, in accordance with Article 92 of the Constitution, the formation of a Joint Committee becomes necessary, the debates in the plenary session shall be based on the report of the Joint Committee.

The provisions of sub-paragraph 1 of paragraph 2 and sub-paragraph 1 of this paragraph shall not be applied to the draft laws concerning the general and annexed budgets, the supplementary and amendment bills relating to such laws, draft bills providing for supplementary or extra-ordinary appropriations for the departments under the general or annexed budgets and amendment bills relating to such laws and bills providing for transfers or to extra-ordinary transfers among the sections of the above mentioned laws, and bills proposed by the administrative members of the legislative assemblies relating to the amendments to the budgets of the Turkish Grand National Assembly in accordance with the provisions of the law.

4. In the committees or joint committees of the legislative assemblies, the acceptance of the draft laws, proposals and texts for which rejection is asked for by the Government on the grounds of non-conformity with the long-term plan in force, or of the specific articles of such draft laws, proposals and texts as well as motions and amendments made on such draft laws, proposals and texts, rejected by the Government for the same reason shall only be possible by a simple majority of the total number of members.

The provisions of the previous paragraph shall be applicable in the Plenary Sessions of the National Assembly for the acceptance of the draft laws, proposals and texts, or of specific articles thereof, and motions and amendments, when the Government switch over from asking for rejection to asking for a vote of confidence.

Amendments to be made in the Long-term Plan

ARTICLE 4 — After the long-term plan has been approved, amendments may be made only in accordance with the provisions of Articles 1 and 2.

The decision on the ratification of the long-term plan and the authorities granted to the Council of Ministers for the amendment of the plan shall not be affected by the above provision.

By-Laws to be Applied

ARTICLE 5 — In the functioning of the Joint Planning Committee of the Turkish Grant National Assembly, the by-laws of the Turkish Grand National Assembly shall be applied, unless specified otherwise.

Date of Enforcement

ARTICLE 6 — This law shall come into force on the date of its publication.

Enforcement

ARTICLE 7 — The provisions of this law relating to legislative organs shall be enforced by the legislative assemblies, and the remaining provisions by the Council of Ministers.

(Published in the **Official Gazette** No. 11235, dated Oct. 18, 1962).

Appendix II: RESOLUTION ADOPTED BY THE HIGH PLANNING COUNCIL ON THE OBJECTIVES AND STRATEGY OF THE DEVELOPMENT PLAN

Objectives and the Strategy of the Plan

1. A development plan will be prepared to attain and sustain the highest possible rate of economic growth and to achieve social justice within the democratic system which is the preferred way of life the Turkish people.

Development Plans

2. Development plans will be prepared to cover five-year periods in a perspective of fifteen years. Within this framework, plans will be subjected to scrutiny annually.

Due consideration will be given to the long-term relationship between the rate of population growth and the rate of economic growth.

3. The Turkish economy is a mixed economy where the public public and private sectors function side by side. From the standpoint of planning, emphasis will be placed upon maximum utilization of the potentials afforded by this mixed economy, and its «rules of game» will be observed.

The activities of the public sector will be planned in such a manner as to achieve the rate of growth and balanced development which the plan strategy calls for.

Private enterprise will be encouraged to increase its investments in keeping with the increase of total savings and to channel these

investments into areas essential for a rapid and balanced development. In this encouragement, direct controls will be eschewed. Recourse will be had [only] to such indirect measures as policies of taxation and credit, and the creation and development of a capital market.

4. Clarity and consistency will govern the economic policy of the government.

Principles of clarity and consistency will be adhered to in the fiscal, monetary, pricing, foreign trade and investment policies. In both public and private sectors, action based on foresight and confidence will be made possible.

Rate of Growth

5 Taking into account the present rate of population increase, the attainment of a rate of growth of approximately 7 per cent has been determined as the target for the forthcoming plan-period. According to preliminary estimates, in order to attain this objective it will be necessary to invest approximately 18 per cent of the gross national product, 14 per cent of which will be financed from internal and 4 per cent from external sources.

6. The largest possible part of the increases in the national income will be channelled into investment.

It is evident that the desired economic growth may only be achieved through certain sacrifices on the part of the people. The major factors which contribute to productivity, such as intensive agriculture, industrialization, and the optimum utilization of manpower, can be realized only through investment. This, in turn, necessitates large amounts of savings.

It is out of the question to lower the living standars of the great majority of the people below their present consumption level for the purpose of increasing savings. However, it is unavoidable to allocate a large part of the increases in national income to investments during the coming few years, if the desired objective is to be attained. This sacrifice should be accepted by the society in order to reach higher stages of welfare in the future. However, the following principles shall be observed in increasing the savings:

a. Consumption of necessities should increase at least as much as the increase in population.

b. The increase in savings should lead to a narrowing, rather than to a widening, of the differences in income distribution.

The rise in savings and investment will be achieved, in the main, by preventing increases in the consumption of luxuries. Therefore, the sacrifice expected from the people is less in actual fact than what it may seem to be at first glance; for, even if average per capita consumption registers only a very modest increase [during the early years], it will be possible to raise the living standards of the majority and thus increase the welfare of society by virtue of a more equitable income distribution.

7. In order to obtain the necessary amount of savings, private savings will be encouraged on the one hand, and on the other hand, recourse will be had to ways of raising public savings to their maximum level.

For the increase of voluntary savings, the existence of a suitable milieu and organization is necessary. An efficient organization will serve the purpose not only of increasing total savings but also of facilitating the best utilization of these funds for investments. Emphasis will be placed upon the measures which may be adopted in this respect. Moreover, measures will be adopted to increase private savings and prevent waste.

Inflation, which sometimes seems like an attractive instrument of forced savings, shall be absolutely avoided. Forced savings by means of inflation not only creates a situation basically contrary to the principles of social justice, but also leads to a waste of resources and instability in the economy. What is meant by inflation here is the case of rapid and prolonged rises in the price level, and balance of payments difficulties not related to development objectives, which come about as a result of excessive spending through printing money [i.e., deficit financing].

Taxation is to be the major means of increasing public savings. Social justice necessitates progressivity in taxation. Income tax remains far from achieving the desired progressivity in Turkey (as in the case of many underdeveloped countries), because of inadequate administration and social organization It is therefore necessary to fill in the gaps of the income tax by improving other taxes, and thus secure progressivity.

Alongside progressive taxation, the State Economic Enterprises can also contribute significantly to savings. The various irrational

attitudes and piece-meal «social justice» considerations which undermine the capacity of these organizations to create investible funds, and in many case lead to considerable wastage of investible resources, will therefore be eliminated

All social insurance institutions will also be considered as significant sources of savings, and a rational utilization of these social security funds will be ensured.

Investment Policy

8. Government investments will be planned in a long-term perspective and within the framework of the economy as a whole; investments in the private sector will be oriented on the basis of the same principles.

In order to ensure the optimum use of the scarce capital resources of the economy, it is essential to make the investments according to general and long-term considerations This general and long-term view will emerge from the plan. The criteria for investment will be taken into account [regularly] at the stage of project appraisal for big investments, and during the formulation of economic policy for smaller investments

Turkish development is bound to be based on the optimum allocation of scarce resources in productive areas over a long period [Further], In a country where nearly half of the national income is generated in agriculture and where three-fourths of the population live in villages, it is appropriate to think in terms of marginal adjustments rather than in terms of all-or-nothing when considering the choice between agricultural and industrial investments

The choice of investments in a long-term perspective will call for large-scale use of advanced technology and for extensive consideration and encouragement of technological possibilities and progress

The fundamental principle to observed in making public investments will be to undertake the investments necessary for long-term development, the strategic investments and the investments which are not fulfilled by the private sector

The overall rate of growth of the economy will generally be limited by the extent of capital accumulation. This, in turn, is limited by the amount of capital goods that can be produced domestically or imported from abroad. For this reason, priority will be given to investments in capital goods industries and export goods industries.

9. In the geographic distribution of investments due consideration will be given to the principle of a balanced interregional development.

In Turkey there are wide differences among regions from the standpoint of the volume of economic activity and income levels. A major element of a balanced growth will be the minimization of large-scale inequalities among regions. In this connection it shall be necessary to act in a manner conducive to such a balance in the distribution of investments among the regions.

It is certain that the attainment of the objective of an interregional balance will necessitate the solution of many complex problems. Therefore, it is appropriate to adopt a three-stage program of action for regional planning.

a. At the first stage, emphasis will be placed upon decisions pertaining to locations.

1) It will be suggested that more than one location be considered in the formulation of investment projects.

2) Among the projects given an equal rating in terms of other investment criteria, priority will be accorded to those which have selected less developed regions as locations.

b At the second stage, measures will be adopted for the encouragement of private investments in certain regions, and in the programs for government investments priority will be given to those regions.

c. At the final stage, full-scale regional development plans will be designed. For the selection of the regions, both economic considerations (growth potential of the regions) and social considerations (development of backward regions) will be taken into account.

Training of Qualified Manpower

10. The systematic training of healthy and skilled manpower in sufficient quantities holds a place of special importance in accelerating the rate of development and in guaranteeing the success of the plan. Priority will be given to training and education at all levels in order to expand research and technical know-how for the purpose of securing the highest productivity in investments undertaken in the plan, as well as for making the best use of existing capacities and potentials.

Public Expenditures

11. Public expenditures of an unproductive nature will be allowed to increase at most at the same rate as the rate of population growth.

In as much as it is necessary, for the attainment of the desired rate of growth, to channel a substantial portion of the increments of national income into investments, it will be essential to confine to definite limits those public expenditures which are in the nature of consumption. It may be considered reasonable to hold constant the per capita amount of expenditures directed to services of this type.

12. The measures necessary to enable public participation in the organization and administration of government services will be taken and priority will be given, with due regard to other criteria as well, to those communities making a special effort in this direction.

The method used heretofore in the distribution of government services has been unilateral action on the part of the government. Public participation in organizing and administering such services not only facilitates the success of the services themselves but also alleviates the government's burden. There are great social benefits to be gained from establishing the understanding that public services require cooperation between public authorities and the people, and from encouraging the communities to engage in concerted action and to get organized in order to solve their various problems. In this manner it will be possible to release for action an energy that otherwise would not emerge, to utilize unused manpower, and to prepare the social conditions which facilitate growth.

13. In order ensure the full and optimum utilization of existing potentials, measures will be taken to improve and modernize the organization of agriculture, industry, commerce and government services.

Reorganization in the field of agriculture is of vital importance. It is necessary, through agricultural reform, to attain the optimum size in exploitation units, so that they can make the greatest use of mechanization and apply efficient production methods. Unless this is achieved, new investments in agriculture cannot be expected to yield sufficiently productive results.

Improvements in the organization of industrial and commercial activities are also absolutely necessary. It is especially important,

in this connection, to unify small capital funds and small production units in certain fields, in order to ensure the optimum use of resources and to benefit from the effects of large-scale production.

The increase of savings in the private sector and the allocation of these funds to the most productive fields are related closely to the existence of a well-functioning capital market. Unfortunately this is completely lacking in Turkey. Except for public funds, capital is closely tied to its owner. This makes the concentration of small capital funds impossible. It is, therefore, obligatory to reorganize various institutions like the banking system, social insurance organizations and stock exchanges in such a way as to create a capital market.

The waste due to lack of efficient organization in public services is also considerable. Through measures of reorganization in some fields, it is possible to obtain greater returns from public services without incurring additional cost.

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Date: August 24, 1967

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Subject: Planning In Turkey

The attached book, "Planning in Turkey," was recently printed by the Middle East Technical University with the assistance of USAID/Turkey. It is designed to survey the historical, social and economic development of the Turkish Planning.

The first part of the book analyzes the general condition of Turkey before actual planning took place and the mergence of a planning organization. The second part analyzes the plans which were prepared in the 1932-1947 era and the third portion attempts to evaluate these experiences.

We hope you find it informative and useful.

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