

A STUDY OF THE ECONOMIC EFFECTS
OF TURKEY'S ETATISM

by

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GENERAL INTRODUCTION

One of the most common and serious problems of the Middle East countries at present is poverty; a problem the causes of which need careful study before any attempt is made at their elimination. But such a study requires the cooperation of many scientists all of whom, through their findings, can contribute to the pool of knowledge. It is this cooperation which, we believe, will perhaps eventually make it possible to conquer this disease and attain a relatively respectable standard of living.

The place of the economist in this particular case, is modest but very important. It is true that the economist can offer no panacea but he can certainly discover elements of waste and, given the institutional patterns and the economic potentialities of each individual country, he can offer valuable suggestions which can be conducive to higher productivity and a better standard of living. The recent literature on developmental economics is, on academic grounds, a great contribution in that direction. Likewise, the post-World War II increased concern of some States and private institutions about the deplorable conditions which exist in most underdeveloped countries at present is a salutary sign. But there is a third force which, since the last three decades, has been operating in various intensities among the Middle East countries. This is commonly known as the national-

istic spirit. To us it is a revolt against all the retarding factors (endogenous and exogenous) which combine to deprive the people of the fruits of progress. It is a movement of the people to better their lots. It is an attempt at the restoration of human dignity and an aspiration for a better life. This dynamic force can help to accomplish much provided it is channelled along the desirable paths.

Here lies the significance of the problem which we have studied. Turkey, beginning with 1923, embarked upon all sorts of reforms in an attempt to break relation with some of the Oriental institutions which the Turkish leaders considered to be impediments to progress. The Turks were ordered to turn their faces towards the West and adopt, in as much as was possible, Western ways of doing things. Through such drastic measures, the Turkish leaders hoped to have the Turkish society attain a level of civilisation comparable to that in the West. Likewise, in full consistency with the nationalistic drive, the Statistic policy was put in force about a decade after the proclamation of the Turkish Republic. This was active state participation in Turkey's economic activities, with special emphasis on industries. The leaders hoped that through such a policy Turkey could be developed into an industrial country and thus attain a relatively high standard of living in a short period of time.

Our main task, as the title of this thesis suggests, has been

to discuss and evaluate critically the economic effects resulting from the application of Etatism in Turkey. Accordingly, we have concentrated on the industrial, agricultural, and foreign trade sectors of the Turkish economy where active State participation or State interference has been most serious. Likewise, we have discussed the financial policy which was developed as a result of the application of the Etatistic principles. Problems relating to internal trade, public utilities, State Monopolies (such as tobacco, salt, matches, alcoholic beverages, explosives, etc.), and transportation and communication have been deliberately neglected. This was because the application of the Etatistic policy either did not directly influence these activities or that they would have been under State control irrespective of whether such a policy was adopted or not. However, cursory remarks have been made of individual cases where it was found relevant. Also, certain economic problems which are found in Turkey but are, more or less, existent in all underdeveloped countries have not received more than passing remarks. But the Etatists have been subjected to our criticism in cases which have resulted in unfavorable economic effects due to deliberate Government negligence.

The work has been divided into two main parts. Part I, which contains two chapters, has been called 'The Turkish Republic in the Making'. In Chapter I an attempt has been made to present the historical background of the Turks and point out the forces

which, we think, contributed a great deal in providing the Turks with a stimulus to better their conditions. Chapter II entitled 'Turkey's Etatism: Its Historical Development' is a discussion showing how Etatism actually passed through a period of incubation before it made its appearance in form of a definite set of principles. We hoped that such an approach would facilitate the understanding behind the adoption of such a policy.

Part II is called 'Turkey's Economic Policies in the Wake of Etatism'. This part contains four chapters which deal with the industrial, agricultural, foreign trade, and financial policies respectively. Each chapter is divided into two main sections. In sections (A) of each chapter, we discuss the declared Etatist policies as published in the People's Party Programs, showing the evolution of the Etatistic principles over a period of more than a decade. We then proceed to show the concrete forms these policies took in the economy. In sections (B) of each chapter, we present a critical evaluation of each policy where we attempt to show its effects on the Turkish economy. We then summarize our findings and present our conclusions in Chapter VII. A full text of each declared Etatist policy as found in both the 1935 and the 1947 People's Party Programs is given in the Appendices.

I am much indebted to Prof. Albert Badre, my supervisor, through whose constant guidance and encouragement this thesis was brought to completion. Also, special acknowledgement is due to Prof. W. Thwaitt

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AN ABSTRACT OF A STUDY
OF THE ECONOMIC EFFECTS
OF TURKEY'S ETATISM

There is no doubt that one of the most common and serious problems of the Middle East Countries at present is poverty; a problem the causes of which need careful study before any attempt is made at their elimination.

For the last three decades there has been a strong force operating in various intensities among the Middle East Countries. This is commonly known as the nationalistic spirit. To us it is a revolt against all the retarding factors (endogenous and exogenous) which combine to deprive the people of the fruits of progress. It is a movement of the people to better their lots. It is an attempt at the restoration of human dignity and an aspiration for a better life. This dynamic force can help to accomplish much provided it is channelled along the desirable path.

Here lies the significance of the problem which we have studied. Turkey, beginning with 1923, embarked upon all sorts of reforms in an attempt to break relation with some of the Oriental institutions which the Turkish leaders considered to be impediments to progress. Likewise, in full consistency with the nationalistic drive, the Etatistic policy was put in force about a decade after the proclamation of the Turkish Republic. This was

active state participation in Turkey's economic activities, with special emphasis on industries. It was an economic policy directed at making Turkey self-sufficient and meeting its defence requirements. The Turkish leaders hoped that through such a policy Turkey could be developed into an industrial country and thus attain a relatively high standard of living in a short period of time.

Having been convinced of the inability of the Turkish private enterprise, the State took over and embarked upon the building of industries. This naturally led to Government interference in the different sectors of the economy. It is to be conceded that, through the active participation of the State, industrial production over the last two decades increased considerably. However, a study of the increase in the national income coming from the industrial sector is not very encouraging. The per capita increase of income has been insignificant. Besides, in its operation, the State committed many serious mistakes. Many industries were established in uneconomic locations. Highways were neglected and railways were built to join strategic centres. Scarce resources were misallocated. State policy of finance kept the rate of interest high. High taxes, price controls, discouragement of foreign investment, and favoritism and nepotism combined to retard economic progress.

One of the most serious mistakes of the Statists has been the neglect of the agricultural sector. Although much lip service has been paid to the importance of agriculture in Turkey, in practice, what was done in that direction was most unsatisfactory. It is to

be remembered that over seventy five per cent of the Turkish population get their living from agriculture. The yearly cultivated area is slightly more than ten per cent of the total area. This has created disguised unemployment with its serious effect on the economy. The per capita income from the agricultural sector is extremely low, reflecting the general poverty in Turkey at present. State policy towards agricultural development, supplemented by complementary industries, would have increased productivity and alleviated the serious problems caused by disguised unemployment.

The Economic policy followed in the foreign trade sector was consistent with the general philosophy of trying to make Turkey self-sufficient. However, the numerous controls and regulations imposed on foreign trade do not seem to have benefited the economy much. But, mention should be made of the fact that such a policy helped to relieve Turkey from its international finance difficulties.

The financial policy as observed in the fiscal, taxation, monetary and banking fields, has also been defective on many counts. The difficulty in obtaining investment resources, forced the Turkish Government into deficit financing through the Central Bank and aggravated the inflationary conditions in Turkey. Likewise, the taxation system has been most defective and has seriously discriminated against the fixed-income groups.

In conclusion, we can say that the Economic policy, taken in its entirety, has conferred a great many benefits on the Turkish economy, but it has also been defective. The urge to close the gap and industrialize Turkey in as short a period as was possible forced the Turkish leaders to disregard Turkey's economic composition and the best ways of solving its problems.

PART I

THE TURKISH REPUBLIC IN THE MAKING

CHAPTER I
THE DRIVING FORCES

A. THE INAUGURATION OF THE TURKISH REPUBLIC

On October 29, 1923 the Turkish Republic was formally proclaimed, with Mustafa Kemal as its first President and Ismet Pasha the Prime Minister. This was a great day for the Turks. An impartial, well-informed, and thoughtful observer, who took the trouble then to review the panorama of events in retrospect, in an attempt to cover the Ottoman history for nine years(1), could not possibly help expressing his surprise and extending his congratulations to the Turks. After four years (1914-1918) of almost continuous warfare, the Ottoman Government found itself face to face with an empty treasury, empty granary, a lost empire, a ruined country, a weary, bitter and demoralized mass of people, and merciless, ruthless and uncompromising enemies (the Entente Powers) pointing their huge guns at the Yildiz(2). This was catastrophe at its zenith.

In order to put things in perspective, it is necessary that we contrast the two famous treaties, namely, Sevres and Lausanne; the former reminiscent of great humiliation and usurpation of rights (from the Turkish point of view), the mere mentioning of which is enough (even at this very moment) to make the blood of every individual who calls himself a Turk boil with hatred and anger. The latter, a symbol of great victory (both military and political) and national pride, and a manifestation of a determined people to live, fills the hearts of the Turks with joy and hope.

On June 10, 1920 the Treaty of Sevres was presented to the Turkish Government at Constantinople (signed on August 10, 1920) by which the Sultan's government renounced all claims to non-Turkish territory. "The Kingdom of Hijaz was recognized as independent. Syria became a mandate of France and Mesopotamia, including Mosul, as well as Palestine, became British mandates. Smyrna (Izmir) and its hinterland were to be administered by Greece for five years, after which a plebiscite was to be held. The Dodecanese and Rhodes went to Italy, while Thrace and the remainder of the Turkish islands in the Aegean were assigned to Greece. Armenia was recognized as independent. The Straits were to be internationalized and the adjoining territory demilitarized. Constantinople and the strip of territory to the Ghatalja lines remained Turkish, as did the remainder of Anatolia."(3) It should be remembered that, following the Armistice concluded at Mudros (October 30, 1918), the Allied forces had already occupied Constantinople, the Italians Adalia, the Greeks Izmir, and the French Cilicia.

As though this was not enough, the Greek forces, backed morally and materially by the British Government, started their great "push" towards central Anatolia, hoping to capture Ankara. But it was Mustafa Kemal's leadership, organization and diplomatic genius which turned the cards against the Greeks and captured Izmir on September 9-11, 1922. This was a fait accompli which even the Great Powers could no more overlook. The Conference and Convention of Mudania (October 3-11, 1922) served as a prelude to the Lausanne Conference. After long and tedious deliberations, the Treaty of Lausanne was signed on July 24, 1923.

According to this Treaty, "Turkey gave up all claims to the non-Turkish territories lost as a result of the World War, but recovered Eastern Thrace to the Maritsa River, including Karagachi. Turkey received Imbros and Tenedos, but the rest of the Aegean Islands went to Greece. Italy retained the Dodecanese and England Cyprus. The Capitulations were abolished in return for a promise of judicial reform. Turkey accepted treaties to protect minorities."(h)

Turkey paid no reparations. The Straits were to remain open for ships of all nations in peace. In case of war, Turkey was to exercise the right to close them to those countries with which she was to be at war. Otherwise, they were to be left open. A Turkish-Greek agreement provided for compulsory exchange of population (excluding the Greeks in Istanbul). It should also be mentioned that arrangements were made with Italy and France who agreed to withdraw their forces from Adalia and Cilicia respectively. Also, a separate treaty was concluded with Russia by which Turkey retroceded Batum and acquired the Kars and Ardahan provinces. Turkey also recognized the Armenian state of the Soviet Socialist Republic. Thus, by October 29, 1923 Turkey had already disentangled herself from the complications of international politics, won for herself a modest place among the sovereign nations of the world, and was ready to embark upon an extensive program of reforms. ~~But before we inquire into the nature of these reforms,~~ ^{Here} it is necessary that we investigate and discover the factors - since then greatly amplified - which made it possible for the "sick man" to recover when, under the then existing conditions, his death was more natural.

B. A SET OF VALUES

1. Belief in Common Ancestry

The word "Turk" has only recently (for the last thirty years) acquired specificity and international recognition. This is not to say that the Turks were unknown outside of their own circle. On the contrary, enigmatic as it may seem, they were solely and constantly referred to by the Western Powers as "those sanguinary and barbaric Turks"; the successors of the Mongolian hordes, led, at different periods in history, by men like Ghengiz Khan, Atilla, and Tamurlane. If we are to disregard the unpleasant adjectives which were used to qualify the "Turks", we find out, to our great surprise, that the majority of the so-called Turks (reference is here made to the higher society) almost never identified themselves with that name in the period preceding the Republic. Of course, mention should be made of the "Young Turk Movement" which, having started its embryonic stage at the Tansimat period (1839) -- ~~the recognition of the first Constitutional Monarchy~~ -- reached its zenith with the coup d'etat of 1908, and cost Abdulhamid II, that 'perfect Tyrant', his throne. But this, by itself, does not mean much, as it was a movement of the intelligentsia which felt the weight of the oppression and the urge and necessity of reforms, than it was at all a common cause of a racial front. More will be said about this under 'Nationalism'.

Even as late as the first decade of the twentieth century, a typical Ottoman(5) would have protested angrily and even considered it an insult if he were ever referred to as a 'Turk'. The word 'Turk', in the nomenclature of those days, was synonymous with the Anatolian Moslem peasant, conveying the meaning of a rude, ignorant,

filthy and most undesirable creature. Not only was this true among the so-called higher society. Even a resourceful and talented poet like Yunus Emre, who was directly and fully the product of a rural Turkish society and who so beautifully described the daily life of his people, hardly ever mentions the word 'Turk'. Moreover, lack of proper means of transportation and communication and a very high degree of illiteracy had already condemned the people to their villages and their immediate vicinities and deprived the mass of acquaintance with new ideas and new movements(6). To this, if we add the oppression of the Sultan and his secret police, it becomes easy to understand and fully appreciate the conditions ruling at those days.

Ethnologically speaking, Anatolia would undoubtedly be the last piece of land on earth which, having been inhabited for milleniums and having been the center of such human flux of diverse origin and culture, could claim purity of race. Reference to the written history and the archeological findings will suffice to prove our point. But proving the point does not mean much when we, at the same time, are quite aware of the fact that a claim of 'race purity' or 'race superiority' has been used, at different periods in history, as a criterion (among others) in order to instill in men the idea of nationalism with the sole purpose of creating a sense of solidarity among the inhabitants of a certain region for a specific end.

It is impossible for us to determine the extent which Mustafa Kemal made use of such propaganda and the influence it had on the

people in Anatolia which made it possible for them to unite and fight bitterly the common enemy. That Mustafa Kemal had already proved to be an ardent nationalist long before he started his campaign against the Greek invaders, is a well-known fact. This, by itself, is enough to prove that it did not require the genius of a man of his calibre to discover and exploit such a potentiality. That he did make proper use of it can be deduced from his famous Speech(7) where constant reference is made to the 'noble Turks' and the 'pure and precious' blood flowing in their veins.

The interesting chapter in reference to the Turks' belief in common ancestry has been written during the Turkish Republic; it being the result of a deliberate policy with definite aims and a faithful follower of the Pan-Turkism movement. The whole idea crystallized in the philosophy adopted by the Turkish History Society (1931) which attempted to prove that "the Turks are not just an upstart, exceedingly minor segment of humanity, but the purest representatives of the original human stock of the earth."(8) This philosophy was later synthesized and presented ^{under} as the "National Historical Thesis" based on the assumptions (1) "that all human achievement is basically Turkish (since all humans began as Turks), and (2) that there is an unbroken thread of purposeful development from the earliest known Turks straight to modern Ankara."(9) Accordingly, Turkish historians were commanded to produce, hastily, enough 'facts' to back this argument. That many Turkish scholars refrained and considered the whole idea as 'complete nonsense' is a fact. But,

that many other corroborated and produced enough text-books to supply the needs of the country (covering all stages of the Turkish educational system) is also an unquestionable fact. Starting from Central Asia, they emphasized the Turkish nature of the Sumerian civilization, and moved to the Hittites who were then presented as the common stock of the inhabitants (Turks) now occupying Asia Minor. From then on they pretended to have no difficulty in tracing the continuity to present times. (For this I can give no better reference than my personal experience, having been exposed to such type of teaching for thirteen years.) Ridiculous and rather absurd as such a doctrine seems to be, it is not completely void of positive force. Actually, this was very consistent with the general philosophy which Mustafa Kemal had in mind and which he put into action through his sweeping reforms. Mustafa Kemal was already convinced that the source of weakness in the Turkish society was an outcome of the highly Persianized Ottoman superstructure and the Islamized doctrine which imprisoned the Turks "within the limitations of their own Faith, State, and Way..."(10) He found the cure in the policy of eradicating all elements of Ottoman sources, (whether he succeeded or not is a different issue), forced his people to turn their faces away from everything Ottoman, and encouraged them to move towards the West - furnishing them with a pre-Ottoman inspiration and insisting on the only road to salvation (Kamalism) through the adoption of Western ideology (Nationalism being then in vogue) and modern technology. Besides, the Historical Thesis was also to serve as an evidence in supporting the Wilsonian doctrine of 'self-determination'. That the highly amplified and greatly adulterated Turkish past, crystallized in

the Historical Thesis, served as the source of negative elements such as 'chauvinism' and xenophobia' is true. But, on the other hand, its influence in creating solidarity among the Turks and a hope for them to live and to progress is definitely a credit item. Having served its purpose, the Historical Thesis has now been "allowed to lapse on the higher level..."(11) Undoubtedly, in such an attempt, scientific objectivity was made subservient to a special end. But, if we are allowed to draw a moral judgment, we have to concede that the services such a theory rendered, in form of a badly needed "Driving Force", more than counterbalances its self-generated, undesirable, but transitory consequences.

2. Language

Language, as a medium of discourse, has always been (as it is now) considered a very important factor of homogeneity. The first period of Turkish history in Asia Minor is that of the Seljuks. It was during that time (1071-1300) that new elements of Turkish invaders entered, "bringing with them vital processes of Turkification and Moslemization,"(12) These two elements were later diffused through Anatolia as the Ottomans grew stronger. Thus, the Turkish language was able to maintain its prominent position among the great majority of the Anatolian inhabitants as well as being the official language of the Ottomans in their state affairs. This of course is much more so at present(13). The Turks, having no alphabet of their own, adopted the Arabic characters. This facilitated their contact with the civilised Arab world. Their acceptance of Islam naturally accelerated the rate of infiltration of Arabic words into the Turkish language.

Likewise, the influence of the Persian civilisation found its way through (among other social institutions) the language. This long process of acquisition eventually reached its climax towards the end of the eighteenth century at which time a big gap was created between the literate (intelligentsia) group and the peasant folks. The poets and the writers of those days prided themselves and actually competed with each other, in an attempt to prove their superiority and skill, by inserting in their works as many Persian and Arabic words as they could. For this they were not to be blamed, because that was the fashion of the day. We should here mention the fact that there were some poets who felt the tragedy and tried to compensate for it by writing in the language of the common man and in syllabic meters (contrary to the so-called greater poets who used the Aruz(14)). Yunus Emre is a good example. But such attempts were no more effective than a drop of rain in a pot full of water.

The need for reform in the language came at the Tanzimat (The Turkish Renaissance) period in 1839. This date is considered to be a point of departure when the Turkish society moved away from the Middle Ages and entered into a new era. Western ideology, culminating in Nationalism and arguing for liberty, fraternity and equality, had reached the Turks. Namik Kemal, the famous poet of the day, created a medium in the Ottoman language which could for the first time express these new thoughts and ideals of the West. The West had given the Turk the realisation of modern political democracy. For the new movement to have any roots, it was correctly perceived by Namik Kemal and his companions that they had to go down to the mass and stir up active participation. This they considered to be more congenial to the Turkish spirit. However, their address could not reach beyond the higher class. They had

made no real effort to simplify (or rather to drop the artificiality in their writings) the language so that they could, in a sense, speak directly with the people. They were Ottomans at heart. The most they did was registered for them as that "Young Ottoman" group which later found expression in the "Young Turk" movement.

It was not until after 1912 that the desire to purge, purify, and nationalize the Turkish language and to free it from the artificial superstructure of Arabic and Persian became both articulate and unanimous. Poets, prose-writers and linguists shared this view. Thus, an attempt was made to simplify the language and adopt the phonetic system. However, the linguists were not satisfied. Ziya Gokalp (1876-1924), a famous philosopher and the founder of the ideological pattern of the Turkish Republic, suggested three linguistic reforms. (1) the Modernization and Europeanisation of the language in respect of notions; (2) Islamisation in respect of scientific terms; and, (3) Turkification in respect of all other words, and of grammar, syntax and orthography. But these suggested reforms were vague and subjected the scholars to numerous difficulties when they had to deal with the actual operation and the process of dissection. Not only the phonetic system, but the writing itself and the peculiarity of the Turkish vowels demanded more attention. This led to a major schism where two schools of thought[†] appeared. The first, backed by Hussein Jahid (a famous journalist), insisted on the adoption of the Latin alphabet. The second, represented in the person of Milasli Hakki, suggested the alteration of the Arabic alphabet or the invention of a new one. The former view was opposed because it was thought that it

would end Islamic and Turkish unity. The latter was refused on aesthetic grounds. Thus, the attempt was abandoned and one more decade had to elapse before the matter could be solved.

Reform in the language was an integral part of the Kemalist doctrine. As impatient as he was to break relations with the Ottoman past, (and he could not have fulfilled his ambition in a better way than that of the change from the Arabic to the Latin alphabet, as this measure made it impossible for the young generation any more to read the Ottoman documents), he also had in mind to increase the efficiency of the peasant by having him economise time in learning, reduce illiteracy, and eventually help the mass to help themselves raise their own standard of living.

The decree of November 3, 1928 introduced the Latin alphabet which was to be applied in all books and periodicals after December 1, 1928. All Turks under forty were obliged to pass an examination or attend school to learn it. This was perhaps one of the most successful operations in the history of Turkey's reforms. That Mustafa Kemal meant business was evident in the measures he took against those fanatic elements who tried to oppose his action on religious grounds. That was a busy year for the Turks - busy learning the ABC of their language. It was as though all the population, turned illiterate overnight, had gone back to school. Churches and mosques were turned into night-schools with instructors who could hardly keep pace with their eager students - eager to learn and ready to accommodate themselves to the swift changes. However, the change was not enough to quench Kemal's thirst for reform - for the complete break with the Ottoman past. The Turkish Language Society

was formed in 1932 and the 'Sun Language Theory' was the product. This was first published on November 2, 1935 in Ulus(15). This theory "sees in Turkish speech the original language of primordial mankind."(16) The attempt was to purge the language from its Arabic and Persian 'parasitic' vocabulary and replace them with words of Turkish origin. This was not easy for the so-called linguists who had to stretch their imagination considerably to be able to conceive and find an explanation to so many thousands of words. Thus, orders were given to journalists to use the new and highly artificial words in stead of the old ones. This was followed by an almost simultaneous boycott (by force) by the readers. Sales of newspapers fell so much that the Government realized its mistake and loosened its grip. From then on it began to give it in small doses(17). The theorists had for their argument, in addition to purification, economy and realism. But, in the opinion of the writer, as much as the former language reform conferred benefits, to that extent did the latter work in the opposite direction. It not only made it impossible for any Turk (in 1951) below thirty-five years of age to read Ottoman classical literature, but the swift and continuous change in the language itself drew an 'iron curtain' between the Modern Turks and their cultural past. The seriousness of the case was recently realized by the Democrats. They not only legalized the use of Arabic in religious ceremonies, but also relaxed the official insistence on the new Turkish words. However, it is rather safe to conclude that the change has already acquired permanency and has conferred great benefits on the Turks(18). The great increase in the number of schools, enrollement (both sexes), and teachers since 1923, and the fact that in the 1953

1950 elections 88,88(19) of registered electorate voted, is a healthy sign of the eagerness of the mass to actively participate in state affairs. This, the Turks owe to their great leaders.

3. Religion

Religion, undoubtedly, has played (and is still playing in some countries) a major role in shaping the psychological patterns of a group of people living in the same area. That it has, quite often, served as a driving force and helped considerably in the attainment of certain ends (negative or positive) is not to be questioned. The separation of church and state is a comparatively recent development in the history of human relationship - a development which still has a long way to go before it can claim full victory.

It is not in the nature of this work to embark upon an analysis of Islam trying to prove or disprove its contribution to any particular society. This is a complicated and highly controversial issue. Besides, such an attempt will lead us far /away from our field of investigation. However, it is our purpose to take a glance at Islam among the Ottoman Turks and then trace its evolution among the Modern Turks since 1923.

The Turkish invaders, having come in contact with the Islamized Persian and Arab civilisations, dropped their Shamanism and embraced Islam. This was a period of mass conversion. The Seljuks raised the banner of Islam and adopted the Persian court way of life. Soon after (1300), Osman Bey, "eponymous founder of the Ottoman (Turkish, Osmanli) dynasty,"(20) carried the same banner until it embraced Asia Minor in its entirety (Christian Minorities excluded). Later, the

Sultan acquired the title of a Kalif (an instrument of political expediency) which was retained and perpetuated until 1924 at which time it was abolished by Mustafa Kemal. Thus, all through the Ottoman regime, Islam kept its dominant position as the "Faith, State, and Way." Webster(21), quoting Deny, argues that the Ottoman conception of religion was composed of two things: (1) Religious logic - which wished to embrace science within the confines of religion; and, (2) Religious politics - which wished to base all law on a Fetvah(22).

The first attempt to question the authority of Islam in state affairs came with the Tanzimat (1839-1876). During this period, the Ottoman empire seems to have already passed from God-made to man-made laws in some sections of her jurisprudence. However, this change should not be exaggerated, as it had hardly scratched the surface yet. The fanatic religious doctors were still very powerful and capable of killing any innovation by resorting to the Shariah(23) where they found a tranquil asylum.

But, in spite of the apparent standstill, the under-current, finding itself face to face with Western impact, was in constant motion. Manifestations of this current were first detected among the members of the Union and Progress Committee (later came to be known as the Young Turks). Ziya Gokalp(24), the leading figure of this movement, had already expressed his opinion. He believed that the change in the direction of progress and enlightenment in the West had come after the (Protestant) Reformation, and that Turkey or any other Islamic nation could not progress without a deep reform in Islam(25). Under the influence of Sufism(26), on the one hand, and rationalism on the other, Gokalp turned away from orthodox

Islam. He established the sociological development of religion and showed that 'urf' (tradition) should be the basis of Canon Law. He aimed at (a) the separation of church and state, and (b) the separation of religion and oriental civilization and thus make possible the maintenance of the fundamental values of Islam side by side with European civilization and Turkish National culture. For him society was the ideal (after Durkheim) - it was God(27). Accordingly, he suggested the abolishing of Sheykhul-Islam and the Pious Foundations. These two religious institutions he considered a handicap to economic progress. He argued that they increased fatalism and indolence. He insisted that the simultaneous religious and secular teaching was a dualism and had to be abolished. Thus, according to the Turkish conception (as developed by the Young Turk Movement), religion was not more than an instrument in the service of logic and politics: it was a special manner of conceiving community life; a community assuring welfare to the individual and order to the social conscience. The community (cemaat) was the union of the faithful of the same locality for the observances of their creed. The community affirmed its union and conformed to the ritualistic actions of the 'imam' (preacher). The church (ummet) was the federation of different communities practising the same religion. It followed the Kalif who was the supreme 'imam'. The Turk possessed this religious conception subconsciously, without bothering to analyse it(28).

That Islam needed a serious shaking was no longer questioned by the Turkish reformers; but the 'how' and the 'when' was left unanswered. It again had to wait for Mustafa Kemal to deal with it. On March 3, 1924, he abolished the Caliphate. On April 9, 1928, by a change in the

Constitution, it was declared that Islam was no more the official religion of the State. In 1937 the Constitution (Article 2) announced that the Turkish State was secular (laïque). Thus, the separation of Church and State was completed. Religious teaching was prohibited, the Pious Foundation was turned over to the Government, and Moslem priesthood was put under Ministerial control.

It is true that Islam had greatly lost its prestige since 1908 and it did so at an increasing rate since 1923. The Sultan's call for the Jihad(29) - in full consistency with the Pan-Islamic theory - found no response and was a complete failure. But Mustafa Kemal's drastic reforms in religion did not flow smoothly. The Kurdish revolt of 1925 was basically a reaction to secularization and cost much effort and blood.

At this juncture, some legitimate questions may be asked. Has Islam in Modern Turkey completely lost its force? Have the Turks become atheists? The answer is 'emphatically not'.

Halide Edib(30), later Mrs. Adivar, writing in 1930, raised similar questions. There is no doubt that she was in agreement with Mustafa Kemal on this specific issue. She believed that "democracy is the dominating aspect of Islam,"(31) and that "Islamic law is an impediment for internal Westernization,"(32) After contrasting the Arab mind with that of the Turk, she refers to the latter saying that in his pre-Islamic state the Turk had been accustomed to be ruled by man-made laws and so now (1930) inclined to separate religion from the ordinary business of life. This, of course, was an attempt to convince the Turk that the religious reforms carried by his Government were in conformity with his own wishes. But, it is definitely sure that neither Halide Edib nor Mustafa

Kemal overlooked the importance and necessity of religion as a spiritual force.

I venture to say that one of the main forces which united the Turks to fight the Greek invaders was Islam. It was the flight of the moslem Turks against the Gavar (infedil) (33). It is also of interest to note that the first meeting of the Turkish National Assembly was preceded by a mosque prayer. And this was by no means a mock-show. On the contrary, it was an honest and sincere reflection of the devotion of the Parliament members to Islam.

Neither have things changed much since 1923. Allen(34), fearing the lack of psychological stability which is likely to be created due to the indifference of the younger Turkish generation towards Islam, urges the need for its complete reevaluation to challenge the attention of the Turkish youth. Such type of fear seems to be unjustified. It is true that the Turkish Youth does not bother much about attending mosques. But at heart they are good moslems. The Turks have never tried to know exactly what the Koran contains. Even during the Ottoman regime, with so much emphasis upon religious teachings in the Medreses, a very small percentage of the literates knew what Islam was about. The Koran was read in Arabic and its verses memorized with no comprehension as to what they meant. Islam was then and is still now taken by faith. The typical Turk may now be less fanatic, but he is certainly not much less tolerant. The failure of the Turkish Government (in practice) to grant complete equality to its citizens who belong to other religions is an evidence that Islam stands close to the heart of the people. The doctrine, which later came to be known as Kemalism, means (1) the mastery of

Western scientific technique, and (2) the building of a nationalistic state. All the reforms which took place have been consistently derived from such a philosophy. Likewise, changes in Islam were deemed necessary in order to develop receptive attitudes toward such modern innovations.

We should also mention that over 80% of the Turkish population live in villages and thus belong to that 'very slow changing peasant' class. This is to point out that the fear expressed by some that Turkey is going atheistic is unfounded. An evidence for this can be seen in the satisfaction shown by the Turks towards the recent legalization of Arabic in religious services. This of course should not be interpreted in the sense that the Turks are again back on their way to Orthodox Islam. On the contrary, the Turks do not feel allegiance to any of the Moslem States. The Turkish society today is characterized by its solidarity and stability on the religious front(35), and the potentiality of Turkish Islam as a driving force can hardly, if at all, be undermined.

4. Nationalism

We now come to 'Nationalism'; a term which, in a sense, embraces, in various degrees, all the vital forces previously discussed. But nationalism is not the result of simple aggregation. It is ^a highly complex and dynamic force which, if properly handled, can lead to much constructive work; but, if left completely unfettered, it can become a very dangerous and destructive force.

Concepts like 'nation' and 'nationalism' defy definition. They are void of meaning if, while discussed, they are not interpreted in

the light of their historical back ground. That, in different periods of history and under different conditions, they have acquired different meanings cannot be questioned. Accordingly, for us to understand the nationalism of the Modern Turkish State and evaluate it properly, it is imperative that we trace its development in Turkish history. But, before we embark upon our investigation, it will perhaps be useful to attempt a definition.

Hans Kohn(36), quoting W.B. Pillsbury, says that "a nation is a group of individuals that feels itself one, is ready within limits to sacrifice the individual for the group advantage, that prospers as a whole, that has groups of emotions experienced as a whole, each of whom rejoices with the advancement and suffers with the losses of the group." He then enumerates the determinants of a nation, giving common descent, language, territory, political entity, customs and traditions, and religion as the main factors, adding that the most essential element is a living and active corporate will. "Nationality is formed by the decision to form a nationality."(37) "Nationalism", he adds, "is a state of mind, permeating the large majority of a people and claiming to permeate all its members; it recognizes the nation-state as the ideal form of political organization and the nationality as the source of all creative cultural energy or economic well-being."(38) Keeping this definition in mind, we shall now revert to Turkish nationalism and see to what extent it conforms with, or differs from it.

Nationalism among the Young Turks and the Turkish masses actually starts after 1912. This was mainly due to the fact that the Turk found himself in a isolation. Facing other nationalistic feelings - the one coming from direct contact with the West, and the other in-

directly from the Ottoman minority groups organized under the Millet system(39) - the Turk tried to do something about it(h0). The first nationalist (cultural) institution was founded by the Medical students in Istanbul and was called Turk Ocagi (the Turkish Hearth). It was only in 1924 that this organization acquired a political color. The Turk now had decided to think for **himself** and to fight for himself; politically, economically, and otherwise. "He was contaminated with the mass selfishness which is nothing less than political nationalism"(h1) This was soon accompanied by Pan-Turanism (a cultural attempt to revert to the past - pre-Islamic mythology) showing the uncongeniality of Islam and return to Shamanism. This movement later took a political shape (a reaction to Pan-Slavism) and created great excitement until its proponents realized that it was a hollow shell and had to abandon it. The leading figure in this movement was Ziya Gokalp. In one of his poems, written in support of Pan-Turanism, he said, "the feelings pulsing in my blood are the echo of my past. I do not read of the glorious deeds of my ancestors in withered, yellow, dusty pages of history, but in the blood flowing in my veins, in my heart."(h2) All this led to a speedier and more drastic attitude toward the separation of church and state in Turkey. The desire to alter and give a new and national sentiment to the Turks dates from the Turanists. Thus, it was soon discovered that pure nationalism was the most realistic. The tendency after the First World War to separate social and cultural units, and recognise their independence, strengthened this view. Nationalism in Turkey at present is on the whole an outcome of it. It has kept Turkey within her own territory and awakened cultural, political and social consciousness.

For us to understand the swift changes and the drastic reforms which took place in the Turkish Republic, and acquire a deep insight into these recent developments, it is necessary that we concentrate our efforts upon the understanding of Ziya Gokalp's ideologies - vague, confusing and sometimes inconsistent though they may be.

Gokalp, as a metaphysicist, concerned himself with all phases of human activity. He was at the same time a first-class journalist and a didactic poet. His ideas were mainly the product of the West, but his attempt ^{was} to retain Turkish culture and subject it to the injections of Western ideologies; i.e., to create a synthesis by harmoniously moulding the West with the East. Though he did not share Mustafa Kemal's views on all matters - and his prominence was never fully acknowledged(43) - Gokalp can claim to have laid the theoretical foundation for the Modern Turkish State(44).

In Gokalp's opinion, national movements, at any rate among Oriental peoples, pass through three stages: (1) cultural awakening; (2) assumption of the form of a political movement; and, (3) formulation of an economic program(45). In trying to compare the West with the East, Gokalp presents us with the following doctrine(46): "In Western Europe conceptions of religious association and national association are kept distinct from one another. In the East, where social development is still much retarded, most people are not conscious of their social identity. They often give wrong answers to questions about their religion and their nationality(47). The only common bond among members of a religious brotherhood consists in religion; while nationality has in common - and apart from religion - language, morals, laws, fine arts,

economics, science, philosophy, and methods of procedure..." This led Gokalp to insist that Turkey ought entirely to separate (48) its cultural institutions from those religious institutions which were common to the whole brotherhood of Islam. For him nationalism was a religion. It will be noted that Gokalp's definition of a nation does not differ from that of Pillsbury. This is not a surprise, of course, as 'Nationalism' was an imported child of the West.

It is also interesting to note that prior to 1912, as a faithful student of French thinkers such as Fouille, Tarde, and Le Bon, his emphasis was on the importance of the individual in society. This was evident in the Young Turk press before the Balkan War which was nothing but a reflection of Gokalp's ideas. They argued that "only a free individual can realize what duty and responsibility are toward the state and society. Responsibility is the outcome of individual rights. Duty imposed merely from without is a slave's job. Responsibility can be created only in free individuals with individual rights." (49)

After the Balkan wars, two forces, one theoretical and the other practical, brought about a major shift in Gokalp's philosophy. The former was Durkheim's philosophy which considered society as the factor of prime importance in history; the latter, the success of the Balkan states in obtaining for themselves complete independence. To this we should add the fact that Gokalp had never fully agreed with the Western conception of independent personality as the supreme aim of human development. Even his ideal of freedom consisted in national independence and democratic rule much more than in freedom of the individual vis-a-vis society and its institutions, such as State or Church (50). Nowhere does

Gokalp present his new philosophy more clearly than in his poem arguing that "no individual but society, no right but duty to that society, exists."(51) Thus, in the new system of Gokalp, which looks upon nationalism as the supreme ideal, there is no room for the absolute value of the individual, which up to recent times seemed to be axiomatic in Western civilisation. For him a nation is a society consisting of people who speak the same language, have had the same education and are united in their religious, moral and aesthetic ideals -- in short, those who have a common culture and religion. A similar definition is given in the 1931 Program of the People's Party: "The nation is a political and social body composed of citizens who are bound together by unity of language, culture and ideal." It will be noticed that the element of religion has significantly been dropped. It is equally interesting to note that for Gokalp 'national democracy' meant a form of Government with the elite and a leader to rule. The ultimate aim was to be the rule of the people after they were trained in self-governing. This view prepared the ground for Mustafa Kemal's authoritarian regime. In all his work Gokalp tried to show the major inner problems of Modern Turkish Nationalism: the question of how to regain national self-respect and self-confidence which had been so deeply shaken by the continuous decline of Ottoman power and prestige vis-a-vis the West. In the course of his literary activities (1909-1924) he gradually turned away from the principles of the 1908-1909 revolution (constitutional monarchy, Ottomanism, reform of Islam, capitalism, liberal democracy, evolutionism) and led the way to Kemalism based on the six pillars of republicanism, nationalism, secularism, statism, popular democracy, and revolutionism.

Since 1923, Turkish Nationalism through the constant propaganda of the People's party, reached its high pitch in the late thirties. Exaggerated as it was, it was not completely out of place. The recent past of the Turks was very fresh in the memories of the reformers. The Capitulations, the Armenian state aspirations, and the Greek episode were not easy to forget. Nor did the leaders mean to have the Turks forget them. On the contrary, on every occasion, reference was made to these negative forces (from the Turkish point of view) which had greatly threatened^e the existence of the Turkish Nation. The Ottomans of course were shown to be responsible for that. This justified the actions of Mustafa Kemal (Ataturk)⁽⁵²⁾ in his attempt to destroy everything which was 'Ottoman'. In and out of schools, in text-books, newspapers, journals, Party pamphlets, and novels the same idea was repeated over and over again. Thus, in fifteen years (1923-1938) Turkism (Turkculuk) developed from a proposition to a conviction among all the Turks. All Ataturk had in mind was to develop among the Turks enough coherence and create an impetus so that they would struggle for the attainment of a higher social and economic standard. In this his success was incomplete. The Turkish peasants have proved to be very slow-moving. But to expect more than what has been done in Turkey, within such a short time, is simply unfair. What has been done was done at the expense of certain values. Halide Edib may be justified, in a sense, by referring to Ataturk's regime in 1925 as having a very anti-nationalist spirit. It was one of those modern attempts to turn a people's face toward the future by shutting out the past. This Ataturk realized. But under the then existing circumstances, he had no choice. It had to be this way if the Turks could at all be channelled along the Western lines.

"Turkism", says Heyd, "resembles German nationalism which 'more than elsewhere... aspired to be not merely a political programme, but a complete philosophy of life.'"(53) Grillparzer may claim that "the road of humanity lies through nationalism to bestiality." But the fact is that nationalism is at present still deeply engraved in human minds (or perhaps their hearts). If carefully channelled, it can serve a very constructive purpose.

Webster has fine things to say for Turkism. He says, the "'Turkculuk' movement gives an affirmative elan to the philosophy and propaganda of Turkish Nationalism which renders it far more vital than the negatory programs of Jew-baiting or capitalist- or communist-hating to which leaders of other movements have had to resort. No enmities are engendered by, or cultivated as supports for, Kamalist nationalism"(54)

Ismet Inonu's regime (1938-1950) did not record any change in the nationalist tempo. It is only during Celal Bayar's presidency that elements of 'excessiveness' and irrational 'fanaticism' have started to show signs for a tendency to subside and follow a more normal course.

C. OTHER FORCES

In addition to the 'Values' which were analyzed above, it would be worth our while to devote this section to a short discussion of some other vital 'forces' which have and still are contributing to the solidarity of the Turkish people and the stability of their social institutions.

1. The 'Bolsheviks'

The Russians, commonly known as the 'Bolsheviks', have for centuries been considered a real threat to the Turks and the fear of Russian conquest has never stopped haunting them. Nor is such a fear unjustified. The Russians, under various pretences - protection of some of the Christian minorities, Pan-Slavism, and now 'aggressive Communism' - have constantly dreamt of the occupation of the Straits; a dream which, for international reasons, has not been realized. The Turks, on their part, have responded to this challenge with equal vigor and the determination to keep the Russians (and Russian propaganda) out of their borders at any costs. This is not to say that these two countries have always been on bad terms. It was partly the Russian arms and materials which ended the Graeco-Turkish war in favor of the Turks. Likewise, it was the Russian capital and technicians which produced the Kayseri Textile mills in the early thirties. However, such seemingly friendly gestures do not show continuity.

Communism, within the foreseeable future, will have no place in Turkish society. It is true that the Turkish 'peasant class' forms the majority of the population and suffers badly from a poor standard of living. But, it is equally true that this class is the most conservative and least 'responsive' to new ideologies and has no taste for alien 'novelties' which will disturb ^{his} peace. It is only if an influential 'proletariat' appears in Turkey - and that certainly is a long way to go - that we can conceive of the Turkish society becoming 'communist-receptive.'

2. Literature and Press

To the casual observer it may seem as though the Turkish Revolution burst suddenly with no preparation. That this is not true has already been amply demonstrated by the preceding discussion. A number of sources contributed to this ferment of new ideas. Among them, and perhaps the major source, has been the Turkish literary leadership. Our attempt here is simply to present a cross-section of this activity and hope that it will be found sufficiently convincing and worthy of the prominence attributed to it.

The Classical Turkish literature was based on Persian models and was oriental and Islamic in thought and form. It was artificial, alien, and did not even follow the native Turkish rhythm (Supra - Section B-2). It was composed entirely of poetry and made no use of the play or the novel. This continued until about 1860. Aside from this Persian form, there was also a folk literature which was almost purely Turkish but heavily tainted with the Oriental concept.

European ideas - play and novel - entered Turkish literature through the writings of the famous 'trio'; namely, Shinasî Effendi (1826-1871), Ziya Pasha (1826-1880), and Namik Kemal (1840-1888). Having discovered that Europeans used the same language that they talked, they adopted the same principle in their writings with limited success. The "Tasvirî Efkar", published by Shinasî Effendi, was the first real newspaper and was most influential in advancing the new movement(55). Namik Kemal's paper, "Hurriyet" (Liberty) was the first exponent of democratic ideas. This was followed by Ziya Gökalp's versatile writings(56).

Since 1923 fiction has become the chief form used. The prominent novelists in this field are Huseyn Rahmi, Halide Edib, Yakup Kadri, and Resat Nuri. Dramatics is still poor. In short stories, the Turks seem to have recorded a respectable place. Omer Seyfettin (1884-1919) and Refik Halit are the two prominent writers in this field. The latter especially distinguished himself in his masterly depiction of the Anatolian village life. Tevfik Fikret (1876-1910), an outstanding modern poet and a great pioneer in the language purification, used poetry as a medium to express his ideals(57). Mehmet Akif, the author of the Turkish National Anthem, represents a different line of thought. He was an Islamite at heart and thought that Nationalism in Turkey attempted to break Islamic unity. Riza Tevfik(58) is famous for his beautiful description of villagers through poetry. Faruk Nafiz and Yahya Kemal are considered to be the best modern poets. The former, original in style, attempts to describe the natural beauty of Anatolia and to reflect the love and sorrow of his people. The latter was a revolutionist, both actively and in writing.

The Kemalist revolution, undoubtedly, developed as a result of this literary leadership. The political leaders have been the men who chrystallised into action the ideals expressed by these poets and novelists.

In analyzing the influence of the press, we find ourselves on precarious grounds. The Tanzimat reformers had to do most of their work in exile. The Young Turks, influential as they were, were still lacking maturity and clear thinking. The press since 1923, (and until

the end of Inonu's regime - 1950), cannot possibly give us the true picture. On the surface, it seemed to be very cooperative and there is no doubt that the majority of the journalists were convinced Kemalists. But the fact that they were censored, and the obstinate silenced, reduces considerably from their importance as the faithful interpreters of the people's voice. However, it can be safely concluded that the majority was sincere in advocating the necessity of adopting Western methods. The attitude of the free Turkish press since 1950 proves the point. All in all, we can say that the Turkish literary activities have been and still are an important factor in helping Turkey to realize its ambition - Westernization- and maintain solidarity among the Turks.

3. The Turkish Woman

The influence of the Turkish woman and her contribution to the creation of a 'new Turkey' deserves, even in such a short introduction, a passing remark.

The Ottomans, having adopted the basically Byzantine and the highly flavored Islamite tradition, were successful in keeping their women within 'the walls'; thus, reducing to a minimum their civic and economic functions. This, of course, was applicable to the urbanized group only, as the peasant women were able to retain their traditional status and continue to actively participate in the economic productivity of the country.

After the inauguration of the Republic, and in full consistency with the policy of emphasizing pre-Islamic Turkish traditions, the importance

of women in Turkish society was carefully pointed out. Halide Edib was the leading figure in this movement. Abdul-Hak-Hamid, that great Turkish poet, added the weight of his authority and popularity to this cause by stating that "the progress of a nation is measured by the status of its women,"(59)

The Republic, by providing educational facilities to women as well as to men, greatly enhanced this movement. Obligatory elementary schooling reduced illiteracy; and coeducation prepared the ground for women to overcome their centuries-old 'public-shy' complex. The emphasis on the necessity of sports for the Turkish girls, the organization of public shows of female gymnastics and scouting contributed favorably to the realization of this objective. The November 1925 law, which seriously discouraged the veil, was a well-calculated and a favorable action in that direction. In 1930 women voted in municipal elections and held office on municipal councils. On December 14, 1934 women were not only made eligible to vote, but also to hold office in national elections(60).

At present we find Turkish women taking part in all activities - from farming to commerce and the professions. However, it should be kept in mind, that the Turkish woman ~~is~~ still has a long way to go before she can obtain a status comparable to that of European women. Even in a highly cosmopolitan city like Istanbul, the typical Turkish woman is still conservative. This element becomes more important as one moves into Anatolian towns. But the impact of the West is gradually helping to overcome this inertia. Thus, we can conclude that the Turkish woman at present is an important force with greater prospects in the future.

4. Natural Resources

Turkey seems to be well-endowed with natural resources. Its rivers, minerals, forests, coal, and the existence of a relatively sufficient fertile land constitute a real force with which the Turks can develop a well-balanced and highly productive economy. Given time, absence of war or war-pressure, and a wise economic policy, there is no reason whatsoever as to why the Turks should not be able to enjoy a gradually rising standard of living.

5. Leadership

As a final point, it is perhaps necessary that we mention a few words about the importance of leadership. It is true that the Turkish Revolution was neither spontaneous nor the product of one man. But it certainly was the result of a wise, determined, and courageous leader's well-calculated actions.

Ataturk can perhaps be truly characterized as a man of foresight, shrewdness and brutality combined. His patriotism, self-sacrifice, and love for his people are unquestionable. That in every decision he made, the future happiness of the Turkish nation occupied a very important place is undebatable. To accomplish his mission - facing the seemingly insurmountable handicaps and opposition - he resorted to very drastic measures. He assumed dictatorial power. He created a bureaucracy with its numerous social impediments. His personal life was deplorable. But none of these can in any sense divert our attention from fully appreciating his accomplishments and his contributions to the Turkish nation.

Armstrong(61), in the concluding pages of his book about Ataturk, says: "He is a dictator in order that it may be impossible ever again that there should be in Turkey a Dictator." The fact is that Inonu was no less a dictator than his predecessor. But the issue still stands in the sense that Ataturk's attempt was to prepare his people for a full democracy.

Webster(62), after having analysed the social and economic conditions in Turkey prior to the Republic, concludes that "the catalytic agent is nationalism; the alchemist is Kemal Ataturk." Nor is this an exaggeration. Ataturk, towards the end of his life, had already become a legendary figure, acquiring the features of a dead-God. The devotion of the Turks to their great leader was evident in their mourning on the day of his death (November 10, 1938). That was a day when, literally speaking, eighteen million Turks sobbed for the great loss. This was an incident unique of its type in the history of man. The Turks, in the opinion of this writer, were lucky to have had Ataturk take over the reins at a most critical and dangerous period in their history.

In the light of the foregoing discussion, we are inclined to agree with Arthur Lewis(63) who, in his attempt to show the great need for economic planning in backward areas, says: "Popular enthusiasm is both the lubricating oil of planning, and the petrol of economic development - a dynamic force that almost makes all things possible.... Even the most backward country will progress rapidly if its government knows how to tap this dynamic force."

FOOTNOTES TO CHAPTER I

(1) Technically speaking, the Ottoman rule ended on November 1, 1921 at which time Mustafa Kemal proclaimed the abolition of the Sultanate.

(2) The Yildiz Palace in Istanbul was the residence of the Ottoman Monarchs. It has now been turned into a museum.

(3) J.K. Birge, A Guide to Turkish Area Study (Washington, 1949), p. 234.

(4) *Ibid.*, p. 236.

(5) By Ottoman we mean the "urbanised" and self-proclaimed gentlemen of that period living in any of the then existing Anatolian cities.

(6) Pan-Turanism, a political idea of World Turkish unity, which originated among the Russian Turks, found expression in Ziya Gokalp's poems and writings, and eventually culminated in the Young Turk Movement, is one of such movements.

(7) The historic speech of Mustafa Kemal to the National Assembly (October 15-20, 1927) where he reviewed the whole course of the Turkish National movement. It is affirmed to be the longest speech ever made.

(8) Donald E. Webster, The Turkey of Ataturk (Philadelphia, 1939), p. 242.

(9) Lewis V. Thomas and Richard N. Frye, The United States and Turkey and Iran (Cambridge, Massachusetts, 1951), p. 83.

(10) *Ibid.*, p. 49.

(11) *Ibid.*, p. 84.

(12) *Ibid.*, p. 48.

(13) *Ibid.*, p. 153. The percentages for the mother tongues of Turkey's inhabitants in 1935 were:

Turkish	85.98
Kurdish	9.09
Greek	.63
Armenian	.37
Georgian	.36
All others	3.57

(14) The "Aruz" was the meter borrowed from the Arabs which lent itself very poorly to the Turkish language.

(15) "Ulus" was the official organ of the People's Party until 1950 when the Democrats took over.

(16) Lewis V. Thomas and Richard N. Frye, *op. cit.*, p. 83.

(17) I have a pamphlet at my disposal (printed in Turkish in 1938) with a dictionary in the back giving the Ottoman equivalents of some of the new words without which it would have been rather difficult for me to follow the argument.

(18) Lewis V. Thomas and Richard N. Frye, *op. cit.*, p. 155. Of the total male population above seven years of age, in 1935, 31% was literate; in 1945 the percentage was 39.50. Of the total female population above seven years of age, 10.50% was literate in 1935 and 14.60% in 1945.

(19) *Ibid.*, p. 154.

(20) *Ibid.*, p. 48.

(21) Donald E. Webster, *op. cit.*, p. 156.

(22) A "Fetva" was the final religious order which legalized an action by showing its approval. It had to bear the signature of the Kalif or of the Sheykh-ul-Islam.

(23) The "Shariah" was the law prepared in conformity with the principles of the Koran which governed the Ottoman state activities.

(24) Ziya Gokalp, in spite of his great contributions to the formulation of the basic philosophical concepts of this movement (and later of Kamalism), was never accepted on par with the rest due to his Kurdish background.

(25) Halide Edib, quoted by Donald E. Webster, The Turkey of Ataturk, p. 157.

(26) It is defined in the Encyclopedia Britannica (XIVth ed.) pp 522-23, as follows: "Sufism is formed from the Arabic word Sufi, which was applied, in the second century of Islam, to men and women who adopted an ascetic or quietistic way of life."

(27) Uriel Heyd, The Foundations of Turkish Nationalism (Luzac & Co. Ltd., 1950), *passim*.

(28) Donald E. Webster, *op. cit.*, p. 156.

(29) "Jihad" is a general call for all the Moslems to unite and fight the infidels.

~~(30) Halide Edib, The Turkey of Ataturk~~

(30) Halide Edib, Turkey Faces West (New Haven, 1930)

(31) *Ibid.*, p. 76.

(32) *Ibid.*, p. 77.

(33) The word "Gavur" at present has lost its literate connotation and is used to insult the non-Moslem.

(34) Henry Elisha Allen, The Turkish Transformations: A Study in Social and Religious Development (Chicago, 1935). See the Chapter on 'The Place of Islam in the New Turkey'.

(35) Lewis V. Thomas and Richard N. Frye, *op. cit.*, p. 153. In 1935 the percentages of the total population as divided according to religion were:

Islam	97.43
Christian	1.39
Judaism	.16
"Others"	.72

~~(36) *Ibid.*, p. 12.~~

(36) W.B. Pillsbury quoted by Hans Kohn, The Idea of Nationalism (New York, 1946), pp. 12 & 13.

(37) *Ibid.*, p. 13.

(38) *Ibid.*, p. 16.

(39) The "Millet" system was the recognition, by the Sultan, of autonomous non-moslem groupings, such as Armenians, Greeks, etc., usually under the protection of one of the Western Powers, including Russia.

(40) Halide Edib, *op. cit.*, *passim*.

(41) *Ibid.*, p. 118.

(42) Hans Kohn, A History of Nationalism in the East (New York, 1929), p. 239.

(43) This was due to his different social background. He was born in Diyarbekir and came from Kurdish stock.

(44) Uriel Heyd, *op. cit.*, p. 166.

(45) Following this classification, the Arab countries seem to be living in the second stage of their development and are on their way towards the third.

(46) Donald E. Webster, *op. cit.*, p. 157.

(47) This of course is no more true.

(48) Ziya Gokalp asked for separation but he did not attempt to destroy them. This was a major issue on which later Mustafa Kemal and Gokalp seriously differed.

(49) Halide Edib, *op. cit.*, p. 253.

(50) Uriel Heyd, *op. cit.*, *passim*.

(51) Halide Edib, *op. cit.*, p. 253.

(52) On January 1, 1935, Mustafa Kemal, following the suggestion of the National Assembly, adopted the name Kemal Ataturk (The Father Turk).

(53) Uriel Heyd, *op. cit.*, p. 166.

(54) Donald E. Webster, *op. cit.*, p. 165.

(55) Djesmi Tahir, The Influence of Modern Turkish Literature upon the Turkish Revolution (LEHIF, 1931), *passim*.

(56) *Supra*, Section B-2.

(57) The fast change in the language makes it difficult to understand him.

(58) A political refugee for many years and one of the men who signed the Sevres Treaty.

(59) Halide Edib, *op. cit.*, *passim*.

(60) In 1935, seventeen women were chosen for the Grand National Assembly.

(61) H. C. Armstrong, Grey Wolf (London, 1932), p. 334.

(62) Donald E. Webster, *op. cit.*, p. 69.

(63) W. Arthur Lewis, The Principles of Economic Planning (London, 1950), p. 128.

CHAPTER II

TURKEY'S ETATISM: ITS HISTORICAL DEVELOPMENTA. INTRODUCTION

For us to understand Turkey's Etatism, it is necessary that we go back to the period preceding the republic and attempt to analyse the new trends of thought, in the economic field, which were then penetrating the Turkish society. The leading figure, in the presentation of these ideas, is again Ziya Gokalp. It is in his ideologies, mainly imported from the West, that we find the germs of Etatism.

In his economic theories, Gokalp seems to have been greatly influenced by two currents of thought; namely, the social democratic movements in Germany and Manchester Liberalism(*). Confused as he was, he attempted to bring about a synthesis which could blend these Western innovations with the Oriental features of the Turkish culture. As to Socialism, although he refrained from showing full allegiance to it, because it contained elements of χ class struggle, he was not exactly against it. His justification for not taking Socialism seriously was that Western industrial proletariat did not yet exist in Turkey. But he conceded that once Turkey got industrialised, Socialism might be introduced but only to serve the national cause.

The problems which, in Gokalp's opinion, needed urgent solution were feudalism and theocracy. But the abolition of legally and politically privileged classes could not bring about national unity

and true democracy as long as acute economic differences among individuals continued to exist in the State. For this he did not want to abolish private ownership of the means of production and the transference of the supreme power to the working class. He tried to find a compromise between Capitalism and Socialism by means of a plan combining the freedom of the individual and his economic rights with equality and social justice. In this way he hoped to promote peace and cooperation between the different classes. He called his program SOLIDARISM (Tessanirculuk) or Social Democracy (Ictimai Halkcilik).

This ideology is based on the recognition of both private and public rights of ownership. Private ownership, particularly of the means of production, is to be permitted on condition that it is used for the good of the community. The second principle of Solidarism is that wealth created by the efforts of society should belong to the State and not to private individuals. The revenues which would accumulate in the public treasury should be spent (a) to carry out comprehensive social reforms, such as general insurance, mutual assistance schemes, free education, etc.; and, (b) to develop State industries. The profits will be spent again on reforms and improvements. If enough capital is accumulated, the State should either abolish taxation or reduce it considerably.

From the Tanzimat period onwards the economic conditions in Turkey suffered a rapid decline. With the gradual Westernisation of Turkish life, the traditional crafts were ruined and economic key positions

passed into the hands of foreigners and Christian minorities. ~~With~~ Gokalp maintains that this economic decline and the lack of a Turkish middle class affected also cultural life adversely. Thus, for the development of a modern economy, he suggests the removal of the harmful legacy of Islamic traditions embodied in the (a) Pious Foundations, (b) the tithe, and, (c) the prohibition of interest.

While in the beginning he favors a capitalistic regime and demands the creation of a strong muslim middle class, he later turns against the theories of Manchester Liberalism which were current in Turkey from the time of the Tanzimat. By adopting the principle of free trade, the Ottoman Empire, argued Gokalp, condemned itself to the economic servitude of the Great industrial countries. If Turkey wants to modernize its economic life and in particular to develop its industries, she must adopt a system of a protectionist national economy as outlined by Friedrich List.

The effects of the First World War on Turkish economic life made the leaders of the Union and Progress (***) more disposed to accept Gokalp's views. The abolition of the Capitulations in the beginning of the War enabled the Government to follow an active tariff policy for the protection of the national industry(1). Immediately after the Gracco-Turkish War, Gokalp argued that, due to the weakness of private enterprise, the Government (local or central) should take over. Thus, his ideas pointed the way to the peculiar form of State Capitalism that developed in Kamalist Turkey.

B. THE ECONOMIC POLICY OF THE PEOPLE'S PARTY: ORIGIN AND SIGNIFICANCE

1. Ataturk, in his opening address at the Economic Congress held in Ismir in 1923, attempted to outline the economic objectives he had in mind for his country by stating that for Turkey to record a respectable place among the other nations it was imperative that it gave primary importance to its economic affairs. He said, "sword conquests" will eventually have to give up their prominent position to the "plough conquest". (2) He introduced the dictum that national sovereignty should be strengthened by economic power. He then proceeded to point out the great dangers that Turkey was facing and the numerous economic problems it had to solve and concluded that for a national economy to possess any 'national' features it had to make use of its own labor and its own capital. Thus, Ataturk, with one strong blow, closed the doors to foreign investment, pointed the way to the necessity of a comprehensive program of 'self-sufficiency', and prepared the grounds for the State to take the initiative.

At this juncture, it is perhaps wise to enumerate the influences which contributed to the feeling that a considerable degree of self-sufficiency was highly desirable. The first and the foremost was a strong sense of Nationalism. The detrimental influences of the Capitulations and the economic superiority of the Turkish minorities were too fresh in the minds of the Turks to be forgotten. Secondly, economic nationalism throughout the world had adversely affected Turkey's purchasing power, as the demand for her agricultural products was greatly reduced. Also, the inconveniences and suffering caused by

shortages in basic goods during the First World War had caused deep impression upon the Turkish Leaders. To these, we should add the effect of the Great Depression (a late-comer) which resulted in a sharp fall in the prices of the Turkish products, aggravating the position of the Turkish currency still more, and seriously hindering the economic activities of the country.

In the early twenties, measures were taken to protect and encourage private enterprise. The introduction of a high tariff wall (this came in 1929 according to the Lausanne Agreement), the Industry Encouragement Law, and Credit facilities were some of the few but important steps taken in that direction. But in spite of all these efforts, private enterprise seemed to be moving very slow. The results obtained were discouraging and certainly not in a position to satisfy the expectations of the highly ambitious leaders. The economic fields into which private enterprise entered, such as chocolate, cotton yarn, and silk textiles, were not in harmony with the State philosophy of the urgency for defence and other essential products which would help in making Turkey self-sufficient. The highly deficient private capital moved in the direction of those activities which promised an immediate profit. Besides, the Turks' poor cultural background, their lack of sufficient knowledge in technology, and the dearth of entrepreneurial power made it impossible for private enterprise to enter any field which required a substantial long investment and an up-to-date organization and technique. Thus, the Government was faced with a serious problem. Living in a world of a high economic instability, fear of war, and an impotent private enterprise, what could be done to

bring about a speedy economic recovery? Who was to assume the responsibility and how were the huge funds to be obtained?

2. The solution to the problem was found in the People's Party deciding to have the State take over the economic reins of the country. Having barred foreign investment, the State could count on nothing but taxation and internal savings (see Chapter VI for a detailed discussion). However, this was a serious move; it was a revolution which brought about a change in the character of the State. The State was no more to adhere to its function as an impartial spectator and regulator, but rather to enter as an active participant. Thus, we see that the Turkish *State*, having decided to take part in economic affairs (October 15, 1923), finally formulated its views and presented them in what it called ETATISM (Congress of May 10, 1931) (3).

The period of 1923-1933 is considered to be that in which a liberal economic atmosphere was still dominant in Turkey. It was still believed that private enterprise had great potentials and any interference of the State which would hamper its development was met with suspicion. It is true that during this period the State had already embarked upon extensive projects of railroad constructions and other public works. But it is also true that such State activities were constantly criticised by parliament members in their formal meetings.

The change in the economic policy of the People's Party as a result of the change in its conception towards liberal attitudes can, for the first time, be detected in Inom's opening address to the High Economic Council(4) on March 1, 1928. There he expressed the

view that economics and State were the two unseparable components of a whole. This statement is considered to be the fundamental tenet of the economic policy of the People's Party which later developed into Etatism; namely, the 'oneness' of the State and the economy of the country. Inonu sees this 'oneness' as a logical conclusion of the need for solidarity(5) and thus establishes the principle of the State and Economics as an organic whole.

3. Inonu seems to have been the main contributor to the formulation of Etatism, its presentation as an economic policy, and its final entrance in the Constitution of the Turkish Republic.

A coherent expression of Etatism, under the constant criticism of the Liberal Republican Party, was first given by Inonu in the speech he delivered on the occasion of the inauguration of the Sivas railroad. There he called it 'Moderate Etatism' with the sole purpose of trying to distinguish it from other forms of 'Statism' developed in Italy and Russia. There he expressed the view that Etatism as conceived by his Party was in no sense to be interpreted as to embrace all the economic activities of the country. He made it a point that private enterprise would always receive the encouragement and the protection of the State so long as it served the 'national interest'(6). As mentioned above, on May 11, 1931 Etatism took its proper place, among the other five principles, in the Party's Programme. And on February 3, 1937 it was put in the Constitution.

Ismet Inonu's comprehensive and systematic treatment of Etatism is found in his article which appeared in the 'Kadro' periodical(7),

entitled "The Statistic Feature of Our Party". There he raises the following points(8):

- (a) "Statism first occurred to me as a policy for proper defence and a means to get rid of the destructive factors in the Turkish Economy."
- (b) "The Party considers Statism a constructive and productive policy conducive to the proper development of the New Turkey. It is naive to entertain the idea that the Turkish industries can be developed without State-help and State-enterprise."
- (c) "A free enterprise (industrial or commercial), to prosper at all, needs State help and State interference."
- (d) "It is Statism which made it possible for private enterprise to survive the recent crises and that they used all their power to have State Monopolies actively interfere in the market."
- (e) "Private enterprise always operates on the basis of profit; whereas, Statism has made it possible to have some of its enterprise (like the railroads) to run at a loss when it is found to be desirable for the welfare of the country."
- (f) "The statement that the State should undertake to operate in fields which private enterprise does not find profitable should be handled with care. The criterion for selection is not the ability of one or the other party, but rather the general welfare."

**C. THE STATISTIC PRINCIPLES ADVOCATED BY THE PEOPLE'S PARTY:
THE THESIS AND ITS EVOLUTION**

Having given the views of its founder, we shall now attempt to discuss the Statistic principles as advocated by the People's Party and show the shift in emphasis over the decade which followed its adoption.

The Fourth Grand Congress of the Party (1935) defined Etatism as follows(9):

"Although we consider private work and activity a basic idea, it is one of our main principles to interest the State actively in matters where the general and vital interests of the nation are in question, especially in the economic field, in order to lead the nation and the country to prosperity in as short a time as possible."

"The interest of the State in economic matters is to be an actual builder, as well as to encourage private enterprise, and also to regulate and control the work that is being done...."

It will be noticed that Statistic policy, in its early period recognized the importance of private enterprise and its share in the economic development of the country. However, the phrase 'the general and vital interests of the nation', rendered the definition ambiguous and made it impossible for private enterprise to know 'where' and 'when' the State would step in to take over. This, naturally, led to adverse consequences and added to the timidity of private initiative.

The Party, in the Congress which met on June 14, 1943, redefined Statism as follows(10):

"It is one of the main duties of the Party to move the Turkish nation to a higher stage of civilization and increase its standard of living. Therefore, the Party considers it of utmost importance to make, simultaneously, full use of the country's individual (both real and fictitious) efforts and State power in order to realize this aim.... It is only natural that the State should encourage, organize and control private enterprise.... The State has no intention to come to a clash with private enterprise when the vital interests of the country do not necessitate it. The extent of State activity, following the above-mentioned principles, will depend upon the vital interests of the country."

The year 1943 was a time when things looked rather grim for Turkey. The indirect impact of the Second World War weighed heavily and the Government felt, more than ever, the need for tightening its grip on the Turkish economy. Besides, the Turkish Government had just been through the first five- and later the four-year plans by which she was able to build numerous factories. This she considered a great accomplishment. Accordingly, it was only natural that Statistic policy would be given a prominent position. It is true that private enterprise was not completely discarded, but the spirit underlying this definition of Statism makes it possible for us to detect the tendency of the State to push private enterprise to the background. As to the vagueness in regard to the proper delimitation of State activities, it was still persistent.

Finally, we come to the last revision of Statistic principles as adopted by the Seventh Congress of the People's Party. Here, under the constant criticism of the Democrats, Inoué and his clique decided to make some concessions. The following are excerpts from the eight articles which were introduced into their programme in an attempt to define Statism and show its proper functions(11):

"The State, in the interest of the public and national defence, has and will build the following industries: big mineral works, power stations, heavy industry, defence industry, public works, and means of transportation and communication."

"Our Party is in the opinion that all economic activities (excepting those mentioned in the preceding paragraph) are within the domain of private enterprise and will thus receive State encouragement, protection, and assistance."

"Our Party considers it necessary (in order to have ~~the State~~ private enterprise feel more secure) to have the State announce the time, place and magnitude of its planned constructions."

"On the other hand, the State retains the right to enter economic activities which private enterprise, due to inability, lack of success, or unprofitability, does not favor."

"The Party favors the idea of the State forming a partnership with private businesses (Cooperative or Corporation) provided that this does not lead to the concentration of profits in the hands of a few."

Here, the shift in emphasis is obvious. The State still retains the right to participate in certain economic fields; but, the important point is the delimitation of State activities and the recognition of the need for making State plans public. This new trend, as will be seen below, was undoubtedly the result of the pressure which the Democrats put on the People's Party.

D. THE ECONOMIC POLICY OF THE DEMOCRATIC PARTY

1. The economic policy of the Democrats, like their political policy, is mainly based on the principles of individualism and liberalism. They start their argument with the basic assumption of the profit motive and conclude that, in an exchange economy, for private enterprise to flourish, there is the need for free markets. Thus, they derive the principle that markets "should never be interfered with unless it is absolutely necessary."⁽¹²⁾ By this apparently they mean that the State should keep its hands off the economy except in extraordinary circumstances when State interference is desirable and necessary. One of the functions of the State, they add, is to encourage and protect private enterprise in order to have it realize its ends. The freedom of the entrepreneur can only be obtained through free markets and the maintenance of competition. Specifically, in Article 42(13), they state that "the activities of private enterprise and private capital are necessary. Therefore, it is imperative that they should be provided with protection, freedom and new fields of operation." Again, in Article 51, "The State, in an attempt to stabilize the economy, should select those measures which will work to free economic activities from obstacles, put an end to monopolies, conserve national efforts and capital,

and prevent exploitation which hamper social justice and public interest."

The People's Party leaders, referring to these articles, claim that the underlying principles of the Democratic program represents the protection of the vested interest of a group of people. Their interpretation is that commercial people and industrialists are only a small percentage of the population and all the Democrats try to do is nothing but to help the few get rich and exploit the many. The Statists Proper seem to have completely misconceived the proper functioning of an economy and the operation of the simple laws of demand and supply. They do not think that the free operation of the market can possibly bring about economic justice; hence, the necessity for the State to interfere.

2. The Democrats do not recognize the right of the State to enter the economic field indiscriminately. Therefore, they insist that the economic activities of the State should be limited and well-defined. The attempt here is, of course, to obtain for free enterprise a wider field of operation. In the second paragraph of Article 43 of their Program the Democrats state: "For private enterprise and private capital to work freely and in an atmosphere of certainty, the State should explicitly declare the range of its activities. Thus, (a) making it possible for everyone to know, beforehand, the long-range plans the State has in mind; (b) by declaring its Customs, State Monopoly, Monetary, and Developmental Policies, making it possible for those concerned to detect the trends and formulate a better opinion of the things to come."(14) Also, the Democrats believe that any

loss which is incurred by private enterprise due to State interference should be indemnified by the State. The Democrats then go on to specify the fields into which the State is to be allowed to enter. Article 44 of their Program states: "The active participation of the State in the economic field should be confined to (a) those which are beyond the reach of private enterprise, or are not undertaken by them due to insufficient prospects of profits, but which will favorably affect the economic activities and the defence position of the country, especially the establishment of defence industries and power stations and the building and operation of things such as railroads, ports, water works, and means of transport; (b) to establish enterprises which have the nature of permanency and render benefits to future generations, such as mineral and forest works. The State should operate these industries not for profit, but for the general welfare, provided it does not, in its operation, jeopardize the position of private enterprise."(15)

The Statists Proper, in answer to the Democrats, raise the following points(16):

(a) By the fact that the Democrats give primary importance to private enterprise and restrict the economic activity of the State, they have created two independent elements in the society - State versus private enterprise - thus committing the grave mistake of destroying the organic wholeness of these two elements. Besides, the Statists do not feel that there is any need for the State to be specific in its program. Their claim is that there are so many things which are still to be done in Turkey that no encroachment on the rights of private enter-

prise can possibly take place in the foreseeable future. Also, the Democrats and private enterprise are rebuked for lack of proper understanding of Turkey's national economic problems.

(b) The Democrats are reminded of the fact that one of the fundamental objectives of Etatism is to meet the defence requirements of Turkey. They then continue to say that, in spite of State orders, private enterprise has refrained from entering such fields due to the lack of profit prospects. Thus, the State, in consideration of the general welfare and security, has had to operate in fields some of which could have been handled by private enterprise.

(c) The Etatists Proper, in reference to the Democrats' wish to have the State guarantee the losses which private enterprise is likely to incur in its operation, due to State interference, say that such a step will reduce the economic function of the State to the protection of a certain group of people who are in no sense representative of the national welfare.

(d) The Democrats are attacked for propagating the principle of profit. This, the Etatists consider as being destructive in the sense that it makes it possible for a small group to exploit the consumers. A proper socio-economic regime, they insist, should be based not on profits but on the principle of effort and duties. When this principle finds response in the national conscience, economic freedom becomes the right of all citizens, not of a small group.

(e) In answer to the need for the delimitation of State activities in the economy, the Etatists Proper have the following to say: (1) Private enterprise, in conformity with the profit motive, does not

look at the economy as a whole and so cannot serve the general welfare. (ii) Private enterprise is short-sighted; it does not look beyond the limited market for its products and so refrains from expanding in order to meet the potential consumers' demand. They cite the lack of long-term investment of private enterprise as an example to prove their point.

(f) It is impossible for the State to limit its activities to sharply defined areas and be faithful to the principle of the service for general welfare at the same time. An adherence to the principle of free enterprise will result in the deliberate maintenance of the miserable conditions of the villagers. Accordingly, it is only through the application of Statistic policy that the State could hope to raise the standard of living of the people.

It is clear from the above arguments that the Statists do not sufficiently appreciate the views presented by the Democrats and, on many counts, they seem to stand on loose grounds. First, the dogmatic insistence on their philosophy ^{of} 'oneness' and the public benefits calimed to be derived therefrom, obscures, if not completely shuts, the potentials inherent in the new liberal trend. Second, they do not seem to be conscious of the atmosphere of uncertainty the State creates when it indulges haphazardly and indiscriminately in economic activities. In other words, the effects of such an attitude upon entrepreneurs' anticipations, the additional uncertainties which have to enter into their calculations and decisions do not seem to be properly appreciated by the Statists. Third, too much emphasis

seems to have been laid on such terms as 'defence' and 'general welfare'. That their defence measures have often been faulty, outdated, and inappropriate is a proven fact. Their claim for general welfare is greatly exaggerated and has very little material substance behind it. Fourth, the Statists have a completely misconceived view of the profit motive. They think of it as a greedy feeling of a small group which waits anxiously to exploit the larger one. They seem to forget that the prime mover of economic activities is this motive itself and that if, through legislative and executive measures, it is contained within certain reasonable limits and is allowed to function in a free market (where consumers' choice is best reflected) it can work for the benefit of the whole economy. Fifth, it is true that private enterprise will not enter fields of activity where the prospects for profits are non-existent or negligible. Besides, to condemn private enterprise for not investing in industries which the State thinks is advisable, with no proper consideration of entrepreneurs' anticipations, is sheer nonsense. That is, it is not true to say that entrepreneurs disregard the potential demand for their products. Given anticipations of future prices, cost, capital potential, market, and economic and autonomous uncertainties, entrepreneurs will make their decisions according to what their prospects of profits are. Sixth, and last, the Statists misinterpret the Democrats' statement in reference to the obligation of the State to indemnify private enterprise. This is not meant to be the protection of the inefficient but a justly claimed indemnity for losses caused by the State's capricious moves.

3. The Democrats favor the idea that some state enterprises should be transferred, with reasonable conditions, to private ownership. In Article 47 of their Program they state: "Enterprises which were originally established by the State but which are known to be handled more efficiently by private entrepreneurs should, with 'reasonable conditions', be transferred to private ownership. State enterprises and similar private industries should, under no circumstances, be treated differently."(17) The Democrats, then, go on to say that the production costs of State enterprises are unreasonably high. To this argument, the Statists have the following to say:

(a) It is agreed that State enterprises, as compared with similar privately owned and managed industries, have a higher percentage of workers and employees. But, as the State keeps on entering new fields of economic activities, it has deliberately employed more people in each unit, having in mind to train them technically and make them available for the next undertakings. Thus, the availability of well-trained workers for new enterprises more than counterbalances the losses which are incurred in the previous industries due to inefficient and redundant managerial and labor force. Such an attitude is certainly not^{to} be expected from private enterprise which aims at minimizing costs and maximizing profits. It is only the State which can take such a broad and unselfish view, having in mind public service and a generally progressive economy. This, the Statists add, is not to be interpreted as an uneconomic behaviour. The lack of profit motive in the State does not prevent it from adopting the shrewdness of business men. The State should always be aware of

unnecessary costs and should try to move in the direction of rationalization(18), taking into consideration the disturbing effects of the trade cycles.

(b) The idea that it is possible to reduce plant cost through a reduction in wages or labor force is a typical private enterprise way of thinking. Costs can more successfully be reduced through the adoption of an up-to-date technique. But, as such measures require a large-scale operation (making use of indivisibilities), and as private enterprise is unable or is reluctant to invest the necessary capital in such fields, the superiority of State enterprises is not to be questioned.

(c) State enterprises in Turkey, unlike similar industries in the West, have peculiarities of their own. The State, out of defence and social considerations, has preferred to establish its industries in the interior. Thus, it has been necessary to provide its workers with the amenities of life which, naturally, weigh heavily on the costs of these industries. However, such measures have their social and educational values, in the sense that they have made it possible for the Turks, living in these areas, to come directly in contact with Western civilization and have helped them to understand and feel the necessity of improving their conditions. Undoubtedly, such steps could only be taken by the State as private enterprise would never indulge in such activities of a highly civic value.

(d) Since the question of defence is one of the main criteria of Statism, the State can, under no circumstances, relinquish its right of controlling these industries, because such a measure will jeopardise its military position.

(e) It should be remembered that State enterprises are the property of about twenty million Turks, the creation of which was made possible through the savings of the people and taxation. Accordingly, any attempt at transferring these industries to private hands with 'reasonable conditions' will, inevitably, result in favoring a small group at the expense of the nation. Such measures are strictly against the principle of 'social justice'.

It is to be conceded that some of the Economic arguments, as presented above, deserve careful consideration. First, a country like Turkey, which was and still is highly deficient in a well-trained labor force, could not, with reasonable chances of success, carry an industrialization program without taking proper measures to fill this gap. That private enterprise would not and could not undertake such a responsibility is too apparent to ~~deserve~~ serve any comment. The minimum which has been done in this direction definitely goes to the credit of State policy. In the application of such a policy, the consumers have usually suffered from high prices due to high production costs. But then we have to face the moral judgment as to whether, taking a long-range view, such measures have not contributed more than what consumers suffered. In the opinion of this writer the attempt has been worthwhile and highly beneficial. Besides, it cannot be said that private enterprise has not benefited from the availability of a trained working force. Second, it is ~~true~~ that private entrepreneurs in Turkey, facing international and national(19) economic instabilities, the limitations of the local markets, and suffering from the lack of capital at ~~the~~ ^{their} disposal(20) ~~has~~ ^{have} not yet been able to enter

the fields which require substantial investment. That is, they have preferred small production and high prices to mass-production and low prices. Accordingly, it is not unlikely that in ^{this} attempt to lower ^{their} its production cost (after having acquired State enterprises) ~~it~~ will resort to the lowering of wages and the dismissing of ^{the} ~~its~~ redundant labor force(21). However, disregarding the social consequences of such measures, it cannot be claimed that private enterprise is behaving irrationally. Nor is the State justified in saying that, because it is able to make use of larger productive units, its enterprises are superior to those which are privately owned and privately operated. Third, disregarding the defence policy of the Statists, which has certainly weighed heavily on the decisions of industry location in Turkey, the civic value which has been derived from such distribution (though uneconomic it ~~is~~ may have been in some cases) cannot be minimized. Almost every State-owned large factory has with it the compound of social facilities - educational, medical, social, recreational, etc. - which go into making the lives of its workers happier. And this is not limited to those who are directly employed at the factories, but includes their families (who are usually provided with decent cottages in the plant-vicinity) and the villagers round those areas. Also, the constant mobility of the labor force extends this Western impact to the remotest regions in Turkey(22). That such measures, indispensable as they are for a country like Turkey, could not have possibly been accomplished by private enterprise is not to be doubted. (It should here be noted that the uneconomic location of certain State enterprises are major difficulties which prevent, at present, the smooth transfer of these industries to private ownership.)

Fourth, we are inclined to refuse the view that the transfer of State industries will jeopardize Turkey's defence position. The State owns and runs industries of diverse nature. The willingness of private industrialists to buy such plants will mainly ~~de~~ depend on their estimate of present and future profits in normal times. This will be the decisive factor in their acceptance or refusal of State-proposed conditions of transfer. In case of war or national emergency, the State can always impose its will provided it sees to it that the owners are reasonably remunerated. Fifth, it can be said that the Statists' claim of having to sacrifice the principle of social justice in case of the transfer of State enterprises has no validity. To begin with, the transfer of each plant and its combines can be arranged on corporate basis and have all citizens, who wish to invest, do so. The money received by the State can, in turn, be spent on public works or in any other field which will most efficiently contribute to the national welfare. It is true that the State will probably have to incur a loss on its original investment. This, if looked upon from an economic point of view, may be inevitable. Besides, the social benefits which the State ~~can~~ claims to have conferred on its citizens through the creation and operation of these industries will, in a sense, compensate and justify the losses (if any) which have to be incurred on the original investment. The important point to notice in this connection is not any more the acquiescence of the State to transfer these industries(23), but rather to find people who are willing to run the risk of investing in these industries. This is actually the dilemma which the Democrats are facing in Turkey at present.

FOOTNOTES TO CHAPTER II

(*) Byrne J. Horton, Dictionary of Modern Economics (Washington, D.C., 1948). On page 207 Horton defines Manchester Liberalism as "a school of economic thinking which derived its name from the proponents of manufacturing interests in Manchester, England, in the early 19th century. As a result of its influence, free trade became a major economic doctrine. To its advocates, laissez-faire was the guiding principle, but attention was also given to the special economic factors related to war, colonial policy and factory legislation. The chief proponents of this school were Richard Cobden and John Bright. Many of its followers were men of action rather than profound students of economic thought."

See also:

a) Lewis H. Haney, History of Economic Thought (New York, 1949), pp. 237-38.

b) Walter Theimer, An Encyclopedia of Modern World Politics (New York, 1950), p. 391.

(**) This was a political committee formed in Salonica prior to 1908 in which Mustafa Kemal was a member. Its Turkish name was 'Ittihat ve Terakki Cemiyeti'. In 1908, its forces marched on Istanbul and deposed Abdulhamid II.

(1) According to the Lausanne Treaty, Turkey agreed to follow the low tariff policy until 1929 at which time she took full control of her customs.

(2) Ismail Husrev Tokin, C.H. Partisinin Iktisadi Siyaset Sistemi, II (Ankara, 1946), p. 5.

(3) Statism was one of the six principles of the People's Party. The other five were Republicanism, Nationalism, Populism, Laicism, and Reformerism.

(4) This Council was formed with the purpose of attempting at the solution of the problems which handicapped the attainment of the State economic ideals.

(5) See the introduction to this chapter.

(6) This is the economic policy as conceived by the People's Party. The remarks of this author will appear later in the critique.

(7) November 22, 1933. Ismail Husrev Tokin, op. cit., p. 14.

(8) Ismail Husrev Tokin, op. cit., pp. 14-17.

(9) Donald E. Webster, op. cit., p. 309.

(10) The People's Party Program quoted by Ismail Husrev Tokin, op. cit., p. 18.

(11) Official Publication, C.H. Partisi Program ve Tuzugu (VIIIth Congress, 1947), pp. 7-10.

(12) Ismail Husrev Tokin, op. cit., p. 23.

(13) Ibid., p. 24.

(14) Ibid., p. 27.

(15) Ibid.

(16) It is to be noted that these objections which were raised by the People's Party against the Democrats were made in the period prior to the meeting of their VIIIth Congress; hence, referred to in the text as Statists Proper.

(17) Ismail Husrev Tokin, op. cit., p. 33.

(18) Rationalization is used to mean that the business unit should attempt to operate at the most efficient point.

(19) Most of the endogenous economic instability in Turkey has perhaps been directly caused by the State's indiscriminate interference, capricious taxation policy, and favoritism for State enterprises.

(20) The Corporate system of business organization, due to the cultural background of the Turks, has not yet been fully appreciated.

(21) This is of course in the absence of State laws which forbid such measures.

(22) It is to be understood that Etatism as conceived by the People's Party is only one principle out of six, all of which form a complex of a drive for Westernisation. See 'Kemalism' in Chapter I.

(23)

(23) The Democrats who, since 1950 came to power, agree, in principle, to the transfer of these industries.

PART II

TURKEY'S ECONOMIC POLICIES IN THE WAKE OF ETATISM

CHAPTER III
THE INDUSTRIAL POLICY(*)

INTRODUCTION

In Chapter II an attempt was made to give an historical account of the development of Turkey's Statism. There we had the chance to observe the evolution of this doctrine and its dogmatic approach to the solution of Turkey's economic problems. But we also pointed out that although, in general, the Government remained faithful to its basic principles, the shift in emphasis, which was mainly due to political impact, was apparent.

It is our purpose in this chapter to present and analyze the economic effects of this Statistic Policy on the industrial sector of the Turkish economy. But, such a critique has, necessarily, to be preceded by a discussion of Turkey's industrial activities and their governing forces over the last three decades; thus, preparing the grounds for a proper evaluation. This we do in Section A. Section B is devoted to the enumeration and an analysis of the major economic effects of Statism on the Turkish industries.

A. INDUSTRIAL PROGRESS AND STATE POLICY

1. The Industrial Policy during the first decade of the Republic

According to the Lausanne Agreement, the 1916 tariffs were to be continued till 1929. This meant that the Turkish Government had to wait for six years before it could exercise the right of full control over its

tariffs. However, it was a year after the establishment of the Republic (1924) when the Government began to take the necessary measures for industrialization. In 1925 the "Bank for Industries and Mineral Exploitation" was established with State capital. This Bank was to operate and expand the State enterprises which were inherited from the Ottomans, establish new ones, and finance private enterprise or assume partnership in their work. In 1928 the "Industries Encouragement" law was put into effect. It is important that we try to fully understand the significance of this Law, as, in answer to the anti-Statists, the Government has always shown it as a proof of the inability of private enterprise to perform its duties properly, in spite of the great benefits which this law conferred upon it.

According to this Law, industrial enterprises were divided into four categories, depending on their capacities. The first group included industrial establishments with each having a minimum of 10 H.P. and a record of at least 1500 labor day per year. The other groups included smaller enterprises. The main benefits granted to industries by this law were the following:

- a) The State gave out Miri land free to entrepreneurs for the location of their establishments.
- b) The enterprises were exempted from construction and land taxes; also, the shares and bonds of such companies were exempted from Stamp fees.
- c) Construction and other raw materials, machines and tools, transport, filling, emptying and power machines, which had to be imported, were exempted from Customs duties.
- d) Constructional materials were subject to a reduced tariff on railroad transports.

- e) Some of the materials which were under State Monopoly control, such as salt, alcohol, and explosives, were sold at reduced prices to those firms which needed them and were entitled to the privileges of this Law.
- f) Following Cabinet decision, these enterprises received (in the first year) a 10% subsidy on their cost of production.
- g) The State, its Special Administrations and their affiliations, under certain conditions, had to buy local products even if they were 10% higher than similar imported products.
- h) Those enterprises which continually met the needs of a region for a certain type (types) of manufactured product (the region was not to exceed that of eight 'vilayets') were granted a maximum of twenty-five years of concessions.

There is no doubt that this Law provided numerous advantages which private enterprise could make use of. As the Law was applicable to all types of industries, a short time after it was put into effect, certain industries ^{were claimed to have} ~~(such as stocking)~~ began to show an excess capacity. Accordingly, a revised law (1933) put new conditions on industries that were to enjoy these privileges. This included conditions to prevent excess production and encourage the sales of local raw materials.

The

The Industries Encouragement Law was repealed in 1942. The reasons are found in decreased imports and high prices of local products which were caused by World War II and which made it no more necessary to extend the extra benefits conferred upon local industries through this law.

2. Statism in Industry

The slow progress recorded in private enterprise, in spite of the benefits of the law and a highly protective tariff(1), convinced the Government of the necessity of a State-planned extensive program of

industrialization. The projects proposed had since 1930 passed through the Parliament and were legalized. Thus, in addition to the Railroads, the Shipping Service, and the Monopolies of tobacco, salt, alcoholic beverages and matches, the State expanded its operations to the other branches of the industrial sector of the economy.

The first 5-year plan which was adopted in 1931 included many industries, the main characteristic of which was the use of local raw materials. As these industries required a huge capital investment and an up-to-date technique, it was to be undertaken by the State or by State assistance through certain national institutions such as the Sumer- and the Eti-Banks and other local State organizations. The total productive capacity of these industries was planned to meet the need of local consumption. A few exceptions aimed at exports(2).

In 1936, when the first plan was not yet completed, a second 5-year plan was put in operation. Part of this plan was actually the continuation of the first. The Ministry of Economy, in a report published in 1936, described the plan as follows(3):

1. "Following the main principles of the first plan, this also consists of those types of industries which require huge capital investment and modern technology the raw materials of which will be wholly provided from the local market."
2. "Concentration on the exploitation of metallic ores which have a limited market at home but are highly demanded abroad. They will be produced and exported as raw or semi-manufactured products."

3. "To make full use of sea, lake and river products, livestock and fruits. This will open new local and world markets and increase the national income of the country."
4. "To increase the exploitation of the coal fields by employing modern techniques; thus meeting the army, civilian and industrial needs for heat and energy."
5. "To establish two power stations which will meet the demand of the Western half of the Anatolian towns and the industries located therein."
6. "As a first step to machine production, and following the first 5-year plan, ~~proceeding with the construction~~ to construct new plants in order to make use of the semi-manufactured products of the Karabuk Iron and Steel Foundries."

In both plans reference was made to private enterprise and was specifically stated that they could operate in any fields which were not within the planned program of the State.

Of course it is to be understood that the industrial plans embarked upon by the Government were the inevitable consequences of its stated policy. A comparative study of the declared Industrial Policies of the People's Party in 1935 and 1947 reveals certain interesting facts. The 1935 Party Program (See Appendix I-A) gives special importance to the need for liquid capital. National work and savings were looked upon as the normal source of capital. No reference was made to foreign capital. This is not surprising, as the period from 1928-1947 was that when most of the foreign companies were bought up by the Turkish Government (Appendix I, Table I). Article 15 of the same program is of ^e special significance. It states that the "industries which the State or individuals shall establish for the industrialization of the country shall conform to a general program."⁽⁴⁾ This meant that private enterprise was to be put under the direct control of Government policy⁽⁵⁾. Also, the same article refers to the ambitious

program the Government had in mind in her attempt to create an industrial unit out of Turkey.

In paragraph two of Article 15, it was explicitly stated that it was the Government policy to scatter state-enterprises all over the country. Although a lip service was paid to the economic factors which normally govern locations of industries, there is no doubt that primarily military and secondarily other social considerations weighed heavily in the determination of locations(6).

The 1947 Program (Appendix I-3, Article 62) emphasized the same point. The uneconomic location of an industry(7) sometimes is sufficient to condemn that enterprise from the very first beginning. This aspect of the problem does not seem to have been sufficiently appreciated by the responsible Turkish authorities.

A third point of great significance was the expressed desire of the Government to exercise price control(8). This was meant to include both State-and private-enterprises. This attitude was claimed to be justifiable on the basis that it was the only way by which conflict of interest between producers and consumers could seriously be prevented(9). Thus, not only the free price mechanism was not relied upon, but the Government did not even consider the use of some indirect techniques of price manipulations. However, price control was actually carried for only a few products.

The 1947 Program presents a somewhat different approach. It is not difficult for us to detect here a tendency for a shift in Economic emphasis. Article 61 explicitly states the Government policy to

encourage the industries which will meet the basic necessities of the consumers at cheap prices. This new approach is quite understandable. Turkey, during the ~~the~~ Second World War suffered from inflation. The money in circulation rose from TL 194 million in 1938 to TL 939.6 million in 1947; an increase of 484% (1938 equals 100) (10). This brought about a serious rise in prices. The overall figure for the wholesale price index showed an increase of 419.60% in June 30, 1947 and the overall figure for the cost of living index for the same date (in Istanbul) an increase of 346.9% (1938 equals 100) (11). Whereas, the annual national income per capita, at 1938 prices, rose from TL 82.10 in 1936 to TL 90.72 in 1944; an increase of approximately 11% (12). This situation naturally brought great sufferings to the consumers. Government attempt here was, by speeding up the production of basic consumers goods, to at least partially alleviate the serious condition of the people. The reference (in the 1947 Program) to make full use of the water and coal resources was well-conceived. As we shall see below, electric energy and coal expenses add up to a relatively high percentage of the total cost of production in industrial enterprises.

An important insertion in the 1947 Program was the desire shown by the Government to make use of foreign capital (Appendix I-B, Article 61-d). An equally important statement is found in Article 64 of the same Program which declares Government desire to organize and manage state-enterprises on private-enterprise basis and scale the salaries of its business employees in a way conducive to productivity. This is a realization on the part of the Government of the detrimental effects

of bureaucracy and the unproductive consequences of the "Barem Law". This law was introduced ~~during~~ ^{prior to} the Second World War through which all Government employees (both civil servants ~~we~~ and workers in State industries) were subjected to a scale of payment (a schedule) based on seniority.

3. Turkey's Industrial Enterprises (both State and Private) and their activities

It is not easy for us to draw a line between big and small industries. The only way to do that, if such an attempt is desirable, is by referring to the statistics compiled after the "Industries Encouragement" law was put into effect in 1928. This of course carries us up to 1941 after which year the Law was repealed and the statistics discontinued.

The table below shows the number of Turkey's industrial enterprises between 1932-1941.

TABLE I

THE NUMBER OF INDUSTRIAL ENTERPRISES⁵
BETWEEN 1932 AND 1941 AS RECORDED
IN THE STATISTICS OF THE INDUSTRIES
ENCOURAGEMENT LAW

Year	No. of Industrial Enterprises
1932	1,473
1933	1,397
1934	1,310
1935	1,161
1936	1,096
1937	1,112
1938	1,098
1939	1,111
1940	1,152
1941	1,052

Source: Dr. Refii Sukru Suvla, Tatbiki Iktisat, Ikinci Kitap (Istanbul, 1948, p. 359.

According to this table, the number of industrial enterprises show an almost continuous decline; a fall of about 28% in ten years. The answer to this decline is found, not in the fall of industrial activity, but in the integration of industrial enterprises. That is to say, over this decade there was a constant increase in the size of the industrial unit. The value of the enterprises, their mechanical power, the number of labor day, wages and salaries, and production went up considerably. This change is well summarized in Table II below.

TABLE II

THE ACTIVITIES OF INDUSTRIAL ENTERPRISES
WHICH WERE ENTITLED TO THE BENEFITS OF
THE INDUSTRIES ENCOURAGEMENT LAW
(1932, 1938, 1941)

<u>Nature of Information</u>	<u>1932</u>	<u>1938</u>	<u>1941</u>
Total No. of enterprises	1473	1098	1052
Value of machines and implements (in TL 1000)	55,883	88,869	123,965
Mechanical Power:			
No. of engines	5894	13,338	19,316
Horse power	102,670	253,867	416,867
No. of technicians and Administratives	3,142	5,222	7,742
Total No. of workers and foremen	52,172	—	—
Labor day (in 1000)	—	23,918	31,543
Value of raw materials: (in TL 1000)			
a) Local	60,258	104,308	235,785
b) Foreign	13,896	24,873	22,867
Total	74,154	129,181	258,652
Value of produced goods (in TL 1000)	137,936	273,833	502,722
Paid wages and salaries	15,411	31,056	49,113

Source: Dr. Refii Sukru Suvla, Tatbiki İki sat, İkinci Kitap (Istanbul, 1948), p. 360.

It is also interesting to note that in 1941 the most important industries in Turkey were those which processed agricultural products. These industries had 508 firms, with a total machine value of TL 35 million and an annual production value of TL 286 million. Next in importance came the textile industry with 219 enterprises and a total machine value of TL 32 million and an annual production value of TL 113 million(13).

There is no doubt that the greatest number of enterprises are concentrated in Western Anatolia. According to the 1941 statistics, the Vilayets of Istanbul and Izmir had 477 enterprises; namely, 41.6% of Turkey's total number of industrial units. The other Western Vilayets together had a substantial share of the remaining ones(14).

Another way of looking at Turkey's industries is to analyze them according to their organization. This procedure will enable us to see the change, if any, towards the corporate form of organization, as a modern and a higher commercial technique and in the facilities it confers in the pooling of capital. A study of Table III below reveals several interesting facts.

TABLE III
THE LEGAL STATUS OF THE INDUSTRIAL
ENTERPRISES
(According to the Statistics
of the Industries Encourage-
ment Law)

Legal Description	1932		1936		1939	
	No.	%	No.	%	No.	%
Single Proprietorship	831	56.42	554	50.32	522	45.63
Common Co. (Partnership)	251	17.04	134	12.17	124	10.84
Corporation	89	6.04	85	7.72	86	7.52
Co. Collective	188	12.76	157	14.26	164	14.34
Co. Commandite	27	1.83	12	1.09	13	1.14
Cooperative	8	0.54	1	0.09	6	0.52
Limited Co.	31	2.10	57	5.18	68	5.94
State, Special Adm. or Municipal Co.	31	2.10	86	7.81	111	9.70
Unclassified	17	1.17	15	1.36	50	4.37
Total	1473	100.00	1101	100.00	1144	100.00

Source: Dr. Refik Sulcu Suvla, *Tatbiki İktisat, İkinci Kitap* (Istanbul, 1948), p. 362.

Over a period of eight years, single proprietorship shows a continuous decline. While in 1932 it formed 56.42% of Turkey's industrial organization, in 1939 it fell to 45.63%; but still retaining its supremacy. This is a reflection of the great desire on the part of the investor to own and actively manage his own firm. The general feeling of insecurity which is characteristic of the Oriental business mind is well manifested in his attitude towards his business.

Partnership (including Collective and Commandite Cos.) follows a similar declining curve; a fall from 31.63% in 1932 to 26.32 in 1939. However, it still is important and the analysis in regard to single proprietorship applies to it also. The amazing thing is that the Corporate form of organization has recorded an insignificant change. In 1932, it formed 6.04%; in 1936, 7.72%; and in 1939, 7.52% of the total industries.

State enterprises present a different picture. Although most of them are organized on corporate basis, their whole structure, their means of finance, and their management warrant us to classify them in a different group. Over a period of eight years they record a relatively large increase. In 1932 - the beginning of the Statistic policy - they were 31 in number and formed 2.10% of the total. In 1939 their number went up to 111, forming 9.7% of the total; that is an increase of about 360% in number and over 460% in importance in eight years(15).

In order to get an idea of the progress recorded in the Turkish Industries, over about two decades, it is necessary that we glance at their total productive capacity.

TABLE IV
 TURKEY'S INDUSTRIAL PRODUCTION
 INDEX, 1929-1945
 (1939 equals 100)

<u>Year</u>	<u>Big Industries</u>	<u>Construction</u>	<u>Small Ind.</u>	<u>Weighted Average</u>
Weighted Ratio	65	10	25	100
1929	33	79	90	51
1930	35	87	91	54
1931	38	91	92	57
1932	43	94	92	60
1933	55	77	93	67
1934	63	79	93	72
1935	63	72	95	72
1936	68	81	96	76
1937	78	87	97	84
1938	83	102	99	89
1939	100	100	100	100
1940	112	87	101	107
1941	112	51	95	102
1942	107	35	93	96
1943	118	32	90	102
1944	129	30	91	110
1945	135	30	92	115

Source: Dr. Refii Sukru Savla, *Tatbiki Iktisat, Ikinci Kitap* (Istanbul, 1948), p. 364.

The index numbers in Table IV above show that the average productive capacity of the Turkish industries increased from 51 in 1929 (1939 equals 100) to 115 in 1945; an increase of 226% in 17 years. It will be noticed that the industries have been divided into three groups and weighted differently. The available statistics do not furnish us with the necessary information in regard to the economic justification of such a classification or the weighting system adopted. However, the given data reveal certain trends. The big industries show an almost continuous increase. With the exception of the years 1934-35, when the index number of the productive capacity of these industries stood at 63 each (1939 equals 100) and in 1942 to 107 as compared to

112 in the previous year, the increase in 17 years was about 409%. The exceptions are likely to be due to the Great Depression and World War II impacts respectively. The continuous increase can perhaps be explained by the fact that a great number of these enterprises were undertaken by the State itself.

The construction industry gives us a better picture. It is, we think, rather safe to conclude that if it were not for the State's planned constructions, the fluctuations would have been more intense. Between the years 1929 and 1932 the index numbers show a steady increase from 79 to 94 (1939 equals 100). Then the rather belated effect of the Depression exerted itself when in 1935 production fell to 72. It then rose to 102 in 1938 and followed a continuously falling curve all through World War II, reaching 30 in 1945.

The figures for small industries show, a more or less, similar trend. Starting from 90 in 1929, it gradually rose to 101 in 1940 (1939 equals 100) and declined in the War years, reaching 92 in 1945.

In the case of big industries, the gradual increase in production, as mentioned above, is likely to have been due to State determination to produce at any cost, with no heed to losses or inventories. Actually, the maintenance of high percentage of stocks has always been characteristic of State enterprises. Likewise, sales at a lower price than production cost in some of State enterprises have also been a common practice, especially by the Smerbank. Accordingly, consumers' demand does not serve us as a guide in this specific case.

In the case of the construction industry, the influences of market forces are more apparent. Although the per ton wholesale price of cement, a major element of cost in this industry, fell from TL 38.40 in 1929 to 30.90 in 1935 (16), the per capita income must have fallen considerably (17); thus exerting a strong depressing influence on the private sector of the economy. As to the fall in the production of this industry in the War period, the forces affecting demand must have come through inflation. The wholesale prices of industrial materials and products (1938 equals 100) rose to 364.60 (18), and the overall figure for the cost of living to 354.40 in 1945; whereas, the per capita income rose from TL 82.10 in 1936 (at 1938 prices) to 90.72 in 1944. Thus, the inflationary increase in the prices of these industrial products and a relatively insignificant rise in per capita income must have reflected itself in a decrease in demand and a consequent fall in production.

4. Private Enterprise in Industry

The available statistics concerning Turkey's private industrial enterprises are deficient and unreliable. However, there is no doubt that their share in the country's industrial production is greater than that of the State. But the State's share since World War II has increased considerably. This came about partly through the establishment of new enterprises and partly through expropriation. State enterprises are relatively few in number, but are highly integrated. Most of the handicraft and light power industries are in private hands, but those needing high capitalisation and modern technology are State-owned and State-controlled. Table V below shows the relative importance of the shares of both parties from 1939 to 1944.

TABLE V

STATE AND PRIVATE ENTERPRISES WHICH
BENEFITED FROM THE INDUSTRIES ENCOURAGE-
MENT LAW (Industries under State Monopoly
are excluded), 1939-1941.
Values in TL 1,000,000

	<u>No. of workers and employees(*)</u>	<u>Total wages & Salaries</u>	<u>Value of Net Production(**)</u>
State Enterprises			
1939	37,000	12.8	40.1
1940	44,500	17.7	49.0
1941	60,500	27.2	65.1
Private Enterprises			
1939	67,600	20.8	61.8
1940	73,500	22.8	27.7
1941	61,500	19.4	66.6
Total			
1939	105,000	33.6	121.9
1940	118,000	40.5	146.7
1941	122,000	46.4	151.7
State's Share(%)			
1939	35.6	38.1	32.9
1940	37.7	43.6	33.4
1941	49.6	58.4	42.8

(*) Estimated according to an average day.

(**) The figures in this column are obtained after deducting the values of raw materials and energy consumed.

Source: Dr. Refii Sukru Suvla, op. cit., p. 365.

The shares are determined according to the number of workers employed, the total wages paid, and the net value of their total production. Here, the gradual increase in the State's share and a fall in that of private enterprise are clearly seen. However, as the Industries Encouragement Law was abolished in 1942 and the statistics compiled for that purpose discontinued, we have to resort to the Labor Law(19) statistics in order to detect the trend during World War II.

According to these statistics, the share of State enterprises (measured in terms of total annual wages paid) rose from 28.9 per cent in 1939 to 34.3 per cent in 1944 (20).

The participation of private enterprise in industry differs in different fields. In mineral exploitations, the coal, iron, and copper enterprises are wholly owned by the State. The 1942 statistics show that private enterprise provided 31 per cent of lignite, 56 per cent of chromium, and 58 per cent of chlorine. Industries which make use of agricultural products, except sugar, beer, alcoholic beverages, and tobacco factories, are all owned by private companies. In the leather industry, the majority of enterprises are in private hands. Due to the prohibition of the importation of tanned leather and shoes, privately owned local tanneries have flourished. However, most of the hides are imported. The local ones are mostly used for military and peasant foot-wear.

In the textile industry both State and private enterprises are rather strong. The silk yarn and weaving industry is completely in private hands. In the cotton textiles, out of 5,700 looms (not counting the 40,000 domestic hand-looms) 2,500 are privately owned. State plants are superior to private factories in equipment and technical skill, but heavy administrative and social welfare charges, as well as inefficiency in marketing, makes the cost of production of Government-owned plants relatively high.

The woolen textile industry is more or less shared by both parties on a fifty-fifty basis. State factories have a total of 29,629

spindles and 449 looms. This industry is mainly devoted to the processing of imported materials. Due to high protection, both productivity and quality are rather low. Production in both State and private plants is largely directed toward the urban market. Little use is made of domestic wool (except for blankets and army uniforms) and there is no real attempt at producing inexpensive and practical clothing for the peasants.

In the lumber and cellulose industry, paper-making is in State hands. The rest is mainly under private control. The metal-using or metal-producing industries such as shipyards, ship-building, big repair shops, iron and steel foundries, and military weapons and explosives factories are all State-owned. Only some of the casting, wire and nail factories and metal-works enterprises are privately owned. The quarries and earth-ware industry, except two tile factories, are run by private companies.

In the cement industry, four privately owned factories (run by three corporations and mostly by foreign capital) produce 72% of Turkey's total annual production of 400,000 tons. The Sumerbank/^{factory} at Sivas and the Ankara factory produce the remaining 100,000 and 15,000 tons respectively. In the chemical industry, private enterprise is predominant. Public utilities (such as electric and gas companies) are owned and operated by Municipalities or Special Administrations.

It seems that a great number of private industrial enterprises are run by foreign capital. But as its amount is still unknown, there is no way of telling what percentage of the total investment it constitutes.

5. State Industrial Enterprises and their Organisation

State industrial enterprises are organised under four categories. These are Sumerbank, Etibank, The Turkish Sugar Factories, and the State enterprises under the direction of the Ministry of Customs and Monopolies.

a) Sumerbank

In 1925 the Turkish Industry and Mineral Exploitation Bank was established, with State capital, to operate and expand the State factories inherited from the Ottomans, establish new ones, and assist in the financing of private industries, especially in their initial period of construction(21). Soon after, it was found necessary to liquidate the Bank. This was not because the Bank failed in its mission, but rather the Statistic policy required greater capital and a wider scope of operation. Accordingly, in 1932, it was dissolved and reorganised in form of two independent institutions called 'The State Industrial Office' and 'The Turkish Industrial Credit Bank'. The former was put in charge of State enterprises^s classified as 'Big Industries' which received high protection. It was also to build industries which would make full use of the local raw materials. The latter was to extend credit for purchases of machinery and materials for industrial construction not manufactured locally, open industrial credit houses, give out loans to small industrial enterprises with the intention of regulating and facilitating their financial needs, and carry on all sorts of commercial banking operations. The 'Industrial Office' did a good job within its defined jurisdiction.

The reason was because the greater part of the assets of the parent institution was transferred to it. As for the 'Industrial Credit Bank', with the meagre resources left at its disposal, it was practically impossible to expect fruitful results from its operations.

With these difficulties in the background, and with the new industrialisation program on hand, it was found necessary to combine these two financial institutions under one single administration. It was this new idea which gave birth to the Sumerbank.

Sumerbank is considered to be the corner stone of the Republic's industrial progress where the application of Statistic policy found real expression. An attempt at a careful analysis of Sumerbank's operations in Turkey's economic history is not only extremely difficult but, such an attempt, will take us far afield from our major line of inquiry. Besides, all publications concerning the Bank's operations are infested with Government propaganda, and its accounts are highly artificial. However, due to its great importance, we find it necessary to give a short account of its operations; presenting, where pertinent, aggregate figures.

The Sumerbank was established in 1933 to help materialise the industrial aspects of the Turkish Revolution. The responsibilities which it was made to undertake were numerous. To mention a few important functions: to operate the State factories transferred to it and supervise State-interest in private hands; to establish and run all new State industrial enterprises; to extend scholarships to deserving students to study in the country or abroad in technical fields; and, to extend credit to industrial enterprises and perform ordinary banking operations.

Sumerbank started its activities with a paid capital of TL 10,700,000 (nominal capital TL 20 million). Its capital was gradually increased over the years to reach a nominal value of TL 200 million and a paid capital of TL 83 million in 1946. "The fixed value of property owned by Sumerbank, including the factories, reached TL 181.8 million at the end of 1947. In the same year, TL 70.6 million of this sum was already amortized. At the end of 1947, the cash paid for raw materials, equipment, and manufactured and semi-manufactured goods totaled TL 208 million. This and other items appearing as its assets exceeded TL 528 million out of which TL 288 million was from the Bank's own resources, TL 94 million from special credit extended by the Central Bank with the Treasury's guarantee, and the remaining TL 145 million was covered from other sources."(22)

Sumerbank has organized its work under six Holding Companies which include the factories transferred to it by the former parent institutions plus those built during its sixteen years of operation(23). To give a picture of what the Sumerbank really consists of, it will be sufficient to mention that in 1947 it controlled and operated 59 big factories, 24 more of a smaller size, and 24 wholesale and retail stores located at important centers of consumption(24). In 1946 it employed 30,000 workers and in 1945 the ^{gross} value of its total sales amounted to TL 515 million.

Table VI below shows the production of certain commodities by Sumerbank industries between the years 1943 and 1949.

TABLE VI
 PRODUCTION OF CERTAIN COMMODITIES BY
 SUREBANK INDUSTRIES
 (1943-1949)

Commodity	Unit	1943	1944	1945	1946	1947	1948	1949
Cotton yarn	1000 tons	9.1	13.9	10.4	14.7	14.4	14.2	15.1
Wool "	" "	3.8	3.9	3.8	3.8	3.8	4.1	4.6
Cotton cloth	Mill. meters	52.4	69.3	60.9	82.1	93.0	92.0	93.3
Wool "	" "	3.4	4.3	5.0	5.2	5.4	5.1	5.0
Coke	1000 tons	183.0	208.6	227.3	262.2	260.1	270.7	292.4
Pig iron	" "	55.3	69.8	70.2	77.9	99.0	102.0	112.7
Steel ingots	" "	42.7	60.8	63.5	79.9	92.6	102.2	101.0
Finished steel	" "	36.0	42.8	85.8	105.5	71.0	n.a.	n.a.
Iron pipe	" "	6.2	7.8	4.7	4.6	6.5	7.4	11.0
Leather	" "	1.7	2.0	2.0	1.4	1.8	1.8	1.6
Shoes	Mill. pairs	1.1	0.9	0.8	0.7	0.7	0.9	0.8
Paper	1000 tons	10.3	12.5	11.2	17.3*	20.2*	20.0*	19.2*
Cement (Sivas only)	" "	26.2	74.7	62.6	74.4	102.4	92.2	100.0
Brick	Mill. pieces	0.8	1.1	2.3	2.4	2.6	3.1	3.1
Tile	" "	1.0	1.5	1.3	2.4	2.9	3.9	3.6
Rayon	Tons	109.0	240.0	262.0	298.0	308.0	287.0	282.0

(*) Includes cardboard

Source: IEBD Report on Turkey (Washington, D.C., 1951), p. 98.

It will be observed that, with the exception of leather and shoes, the increase in production over the Bank's seven years of operation is considerable.

b) Etibank

Etibank is also a State institution. It was established in 1935 with an initial capital of TL 20 million. This was increased to TL 100 million in 1942, and again to TL 150 million in 1946. Its main function is to exploit the State-owned and expropriated mines and build and operate power

stations. It also has the power to participate in private enterprises which operate in this field and were established prior to its existence, and it carries all sorts of banking operations. It has organized its work under seven 'Limited Companies' each of which has an allotted sum of capital and a specialised field of operation.

A study of table VII below gives us a good idea of the combined works of the Sumer- and Eti-Banks over a range of eight years.

TABLE VII
LABOR AND PRODUCTION INDICES OF THE
SUMER- AND ETI-BANK COMPOUNDS
(1939-1946)

Year	No. of workers in State Enterprises	Index of No. of Workers	P R O D U C T I O N (1940 equals 100)		Weighted Average
			Eti-bank G.	Sumer-bank G.	
			Weighted ratio	Weighted Ratio	100
			<u>37</u>	<u>63</u>	
1939	45,110	85	90	86	87
1940	53,060	100	100	100	100
1941	54,730	103	100	102	101
1942	56,220	106	88	103	99.8
1943	65,940	124	110	112	112
1944	69,560	131	127	125	126
1945	71,730	135	130	132	131
1946	70,300	133	128	132	130

Source: Dr. Refli Sukra Suwla, op. cit., p. 378.

The number of workers employed in both compounds show a constant increase. The indices for the average yearly production show, with the exceptions of the years 1942 and the slight drop in 1946, a constant increase from 87 in 1939 (1940 equals 100) to 130 in 1946; an increase of almost 50 per cent.

Table VIII below shows Turkey's mineral production from 1938 to 1949. There is no doubt that the greater part of this production has come through the efforts of the Etibank.

TABLE VIII

TURKEY'S PRODUCTION OF PRINCIPAL
MINERALS, 1938-1949
(in thousands of tons)

Year	Coal Unwashed	Sub-bitu- minous Coal & Lignite	Iron Ore	Chrome Ore	Salt	Elster Copper	Sulphur	Manga- nese	Bora- cite	Barry
1938	2,589	158	73	287	n.a.	2.3	3.8	2.2	4.1	8.5
1939	2,696	185	231	282	24.0	6.7	1.1	0.5	15.2	10.0
1940	3,019	229	130	170	234	8.8	3.7	0.5	5.3	8.6
1941	3,020	301	61	136	251	10.5	2.2	1.4	2.2	5.1
1942	2,510	390	19	116	211	8.3	2.7	3.4	n.a.	9.3
1943	3,166	625	92	155	266	9.7	3.4	2.7	n.a.	7.8
1944	3,560	764	90	182	257	11.0	3.4	1.9	n.a.	0.1
1945	3,720	725	126	147	251*	9.8	4.2	5.1	5.0	2.2
1946	3,831	604	112	103	206	10.0	3.0	2.4	2.2	8.5
1947	3,946	840	119	157	276	10.1	2.7	5.8	3.6	11.8
1948	4,023	1,010	192	285	263	11.0	2.6	8.3	5.3	7.9
1949	4,183	1,259	211	433	n.a.	11.3	3.1	25.0	7.1	8.9

(*) Seven months only

Source: IBRD, op. cit., 109.

It will be observed that, with the exception of Sulphur, which shows a slight decrease in 1949 over the 1938 level, there has been a considerable increase of mineral production over a number of twelve years.

c) The Turkish Sugar Factories

There are four factories which are operated by 'Turkey's Sugar Factories Corporation'. The capital invested and their administration is partly State and partly private. The Sumerbank, the Agricultural Bank, and the Ish Bank provide the State capital in equal shares. Prior to 1935, the sugar factories were run by private enterprise. In the same year, the State bought and organized them under one Corporation which is a sort of Sugar Trust. Their combined yearly production was 94,500 tons in 1939. In 1947, production was increased to 97,000 tons(25). However, as this quantity did not meet the demand of local consumption, an additional 62,097 tons, with a total value of TL 41,611,000 was imported(26).

d) State Enterprises under the Direction of the Ministry of Customs and Monopolies

The production and sale of certain products in Turkey are State Monopolies. The main ones are tobacco, salt, alcoholic beverages, and matches. The importation of these products is strictly forbidden and Government production meets the demand of local consumption.

6. The Finance of State Enterprises

The major problem which the Turkish Government faced, after the adoption of the Statistic policy, was that of financing its ambitious industrial programs. Having barred foreign investment(27), it had to depend on national savings. But a country like Turkey, with a low national income, could not possibly furnish the necessary liquid assets, through normal channels, and in a short-period industrialisation. Accordingly, the Government applied different methods to meet this urgent need.

The first and most important source was taxation. The Government diverted part of its annual revenue to finance its projects. This of course meant forced savings and a heavy burden on the public. A second method which was generally practised by the Government was the policy of maintaining high prices on some of the state-produced goods(28). The adoption of such a policy was partly due to the losses which the State was incurring in the operation of some of its enterprises; but it was mostly in order to provide the funds for further expansion. This measure naturally diverted potential consumption and even potential private investment funds into investment in state-owned industries. A third technique which the Government made use of was borrowing from the Central Bank. Since 1938, the Central Bank has rediscounted Treasury-guaranteed bills of State enterprises at an effective rate of 1 per cent. These bills run into 9-months but are periodically renewed and have thus become a permanent floating debt of the Government at the Central Bank(29). In contrast, the Central Bank has rediscounted non-renewable 90-day commercial bills of private enterprise. Private firms which managed to get loans from commercial banks had to pay an effective rate of 10 to 12 per cent.

In addition to the three methods of finance mentioned above, the Government has also resorted to internal borrowings. The long-term Government bonds carry 7 per cent of interest and the annual servicing of the debt adds up to a substantial figure.

Unfortunately there are no reliable statistics concerning investment in industries. According to some estimates, between the years of 1933 and 1940, a total of TL 190 million ~~ee~~ was invested in industries. TL 135 million of this was provided by the State; the rest (TL 55 million) by private enterprise. Through 1940-1945, State invest^{ment}~~ment~~ was TL 167 million. This means that in twelve years a total sum of TL 302 million has been invested in State enterprises. If the depreciation in the value of the Turkish currency since 1938 is taken into consideration, total State investment reaches about TL 800 million. Also when auto-financing is included, the total in 1948 goes up to a round figure of one billion Turkish liras(30).

7. Supervision and Management of State Enterprises

One of the major criticisms which is often directed against Turkey's state-enterprises is that they suffer from bureaucracy; with its horde of undesirable economic consequences. This is true of course in almost any country whose Governmental organization is highly centralized and is certainly much more so in Turkey. The organization, management, and supervision of State enterprises, the capital of which is completely or more than half paid by the State, are regulated by the Law of 1938 (No. 3460). Enterprises subject to this law have the following organizational structure: A general Assembly, a General Supervisory Committee, an Administrative Council, and a General Directory.

The General Assembly functions under the chairmanship of the Prime Minister or the acting-chairmanship of an appointed Minister, and includes the Ministers of Finance, National Economy, Agriculture, and Commerce;

the Presidents or vice-presidents of the Budget, Justice, Accountancy, Finance, National Economy, Agriculture and Commerce; the Chairman of the General Supervisory Committee; and the Chairman of the Administrative Councils and the National Banks whose capital is more than TL 1,000,000 and their Directors General.

The General Supervisory Committee supervises State enterprises and their Limited Companies and the Companies at least one half of whose capital is paid by the State. It audits their accounts and sees that they function properly. It then submits its reports to the Ministry of the National Economy and the other related Ministries. The Ministers comment and send the reports to the Prime Ministry who, in turn, submits them to the General Assembly. State enterprises are also supervised and inspected by the inspectors of the local management and by the inspectors of the Ministries under whose direct control they are.

8. Turkey's Industrial Activities and National Income

A study of Tables VI and VIII above shows that the contributions made by both the Sumer- and Eti-Banks to industrial production in Turkey has been considerable. However, a more searching look at Turkey's total industrial production reveals that industrialisation, in general, has not been as widespread and as favorable as it would be imagined. This can be seen from Table IV above.

A different way of looking at Turkey's industrial activities is by studying the value of their total net product over a number of years. This is done in Table IX below.

TABLE IX

THE VALUE OF THE TOTAL NET ANNUAL
PRODUCT OF THE FOREIGN INDUSTRIES
(in million of TL)

	<u>1939</u>	<u>1941</u>	<u>1944</u>	<u>1945</u>
Total Net Product	314.0	457.5	892.2	949.3

Source: Vedad Eldem, "Le Revenu National de la Turquie," Revue de la Faculte des Sciences Economiques de L'Universite d'Istanbul, October 1947-January 1948, No. 1-2, pp. 90-92.

The net product figures in the above table have been arrived at by deducting from the value of gross product the costs of raw materials and fuel, the amortisation charges, and the interest and insurance premiums. Looked at superficially, we find that the total increase in the value of the net product, over a number of six years, is more than 300 per cent. However, it is to be remembered that during the Second World War the Turkish economy suffered from a serious inflation. The inproportionate increase in the value of the product, as seen above, is a reflection of inflationary prices rather than an increase in productivity. This can be proved by making use of Turkey's national income estimates.

According to Sefik Bilkar(31), Turkey's national income from the industrial sector, in 1943, was TL 800 million; as compared to TL 215 million in 1935/36. But when the former figure is deflated to the 1935/36 prices, it becomes TL 275 million. This is an increase of 28 per cent in seven years which is consistent with our figures above given in regard to the increase in the production of State industrial enterprises.

B. STATISTIC POLICY AND ITS EFFECTS ON THE INDUSTRIAL SECTOR OF THE TURKISH ECONOMY.

The problems which the Turkish industrial enterprises face at present are numerous and diverse in origin. However, it is possible to classify them into two main groups. The first group consists of those which embrace both state and private enterprises and are, in various degrees and intensities, present in all underdeveloped economies. Thus, they have a more persistent nature and their solution will have to await the long process of development and progress. The second group consists of those specifically characteristic of Turkey and have their origin in the adoption of Statistic policy. We are here concerned with the second type of problems.

It is generally true that when an underdeveloped country embarks upon a program of rapid industrialization, it suffers from high costs, especially at its initial period of development. However, if enough economic foresight is shown in the selection of the types (i.e., if due regard is given to the need for fuel and raw materials and the extent of the market) and locations of industries, and the principles of rationalization and specialization are observed, the cost of production should, in the long run, tend to fall and the industries should become competitive.

The first thing which strikes our attention, when we study the Turkish State industries, is their high cost of production. This is of course true of private industries too, but to a lesser extent. The fact that State enterprises have not followed the proper cost-

accounting system, makes any quantitative analyses useless. However, the available data lend themselves to at least a partial diagnosis which makes it possible to discover some of the basic causes.

1. The Uneconomic Locations of Industries

The uneconomic location of many of the State industries has been a major cause in their high cost of production. Declared State policy, as explained above, constantly emphasized the point that military and other social considerations would be given priority over the economic factors. We are in no position of course to draw any judgment about the correctness of such measures. However, looked upon from a purely economic point of view, the mistakes committed seem to be numerous and serious. In fact one of the main difficulties which the present Government is facing is that of finding people who would be willing to invest in State industries so that it can accomplish the policy of transfer. And the location of these industries seem to add much to the businessmen's reluctant attitude.

The Karabuk Iron and Steel Works is a good example to be mentioned. These factories are built in a location which is 60 miles away from the coal mines and 550 miles away from the iron ore deposits and are connected by one track railway. It is mainly because of this reason that they have, since they started operating, been running at a loss and there seems to be no solution except perhaps scrapping them.

Not only the availability of raw materials, but the labor and consumption markets also have generally been disregarded. These factors combined, often cause bottlenecks - loss of time, temporary

stopping of work, lags in deliveries, etc. - all of which add to the cost of production.

Private industries do not suffer from such an inconvenience, as economic considerations were the sole determinants of their location. If any of the Turkish private industries finds itself, at present, at a disadvantage because of its location, it is because of some unfavorable changes which have taken place since its establishment; such as a major shift in the concentration of population. But such occurrence is rare and unimportant. However, some private industries seem to suffer, indirectly, because of State-policy. The cement industry is a good example. The greater part of cement production is in private hands and is mainly concentrated in the Istanbul vicinity. One factory is located near Izmit the harbor of which is used as a military naval base. Accordingly, the area has been directly under military control for security purposes. Thus, it has often happened that because of certain breakage in the factory or the necessity of technical advice, the management has had to make use of the services of foreign experts. But due to the delays caused in obtaining permits(32), the factory has had to stop operation for some time. The uneconomic results of such a handicap is too apparent to deserve any comment. This difficulty is not, of course, confined to the cement industry. The abundance of military zones in Turkey furnish us with many other similar examples.

2. Transport Difficulties and their Effect on Cost

The effect of a poor transportation system in Turkey on the cost of industrial production is substantial. State and private enterprises suffer from this deficiency, but it is much more seriously felt by private producers as they do not enjoy the privileges which State enterprises have. The basic reason behind this deficiency is State policy. In the past thirty years, it has been the State policy to concentrate on railroads and almost deliberately neglect highways. Even railroads have not been built according to the economic need of the country. The Government aimed at connecting strategic centres, with no special regard to increasing the productive capacity of the country. The 'Gallipoli School' of militarists emphasized the policy of isolation and prepared their schemes of defence accordingly. They did not realize that defence requires quick army mobility and that any pre-determined policy of delaying aggressive forces equally delays the movement of their own army. No matter to what extent we are justified in this criticism, the fact remains that the neglect of highways in Turkey has been seriously caused by this specific militaristic policy.

According to the statistics compiled by the American Roads Group in 1950, out of a total of 21,638 Kms. of roads, only 530 Kms. were asphalted and 7,426 Kms. were passable macadam(33).

According to the Hilts Report(34) at least 10 per cent of current wheat production is lost through spoilage because of absence of transport facilities. Also, that agricultural production could be

increased by 75 per cent since at present no effort is made to produce products which cannot be marketed. Similarly, there are some mines which at present are not operated because of lack of access to the desired centres. The effects of this neglect are far-reaching. They not only contribute to a high percentage of transport cost, but add to the cost of production because of the high cost of raw materials. This is specially felt in industries specialized in the processing of agricultural products. Likewise, the mineral ores, whether used by the home industries or exported, have to be quoted at higher prices. Also, poor transport facilities delay the development of Anatolia as a market for consumers, which is perhaps an important factor in the determination of private firms to operate on a small scale, rather than making use of a large-scale of production. The effect of high cost of transport on the prices of coal, which is commonly used as a source of fuel, is also not to be overlooked. In the cement industry, coal expenses run up to a figure as high as 11.78 per cent of total cost of production(35). Part of this is of course due to the low efficiency of labor. But transport cost forms a substantial part of this expense.

To give one more illustration. It has been estimated that a ton-mile by oxcart in Turkey costs about \$1.00 for labor alone; whereas, total ton-mile cost by truck in the U.S. is less than 3¢.

3. The Lack of Balance Between Entrepreneurship and Technological Know-how

Turkey's industrial development has followed a trend unique of its type. To beginwith, the State's emphasis on technology, and the

measures adopted to train people (at home or abroad) in various techniques, has, over a period of three decades, provided Turkey with a force of experts reasonably sufficient to carry out the work. However, most of these experts have been employed(36) in State enterprises under the direction of political managers. Thus, they have been deprived of both the full use of their technical knowledge and the practice of managerial technique. Secondly, all these experts have been turned into bureaucrats who receive their salaries according to a scheme of seniority. This has helped to kill their initiative for bettering things. Thirdly, State enterprises have never been compelled to pay out dividends to the Treasury nor repay their capital. Accordingly, relieved of the ~~foster~~ fear of losses and bankruptcy, the managers have been careless and indifferent. The importance of an entrepreneur lies in his sound judgment concerning the selection of location, the combination of factors, the consumers' market, and a proper evaluation of the uncertainties involved. When all these factors are predetermined by a State policy, entrepreneurship loses its significance. Thus, we see that Turkey's industrialization program has in no way contributed to the development of this indispensable talent.

The effect of this feature of Statistic policy on private enterprise has been indirect but serious enough to deserve consideration. It is to be conceded that entrepreneurship in private enterprise is definitely superior to that of the State. The reason is obvious. Private firms do not enjoy the privileges granted to State enterprises and thus cannot afford to be careless. Such an attitude on the part

of a manager cannot escape the ^epenalty of having to lose a job or a fortune(37). However, the detrimental effects of State-policy are not lacking.

First, there is the element of general insecurity created by State policy. The fear of expropriation, capricious decisions, control of prices, limitations on profits, etc., have all combined to create an additional risk which limited industrial operation to the few ambitious and bold individuals. This must have adversely affected the development of an industrialist class in Turkey(38). Industrialists in Turkey are usually merchants who build factories as a sideline. Second, industries in Turkey receive high protection from the State. The tariff rates range between 50 and 200 per cent. This lack of competition has had unfavorable results in the sense of making it less necessary for the industries in question to increase efficiency and reduce cost. The rope and twine factory in Istanbul will serve as a good example. This factory was established in 1932 under the Industries Encouragement Law. It has an annual capacity of about 525 tons of twine and 350 tons of rope. Domestic hemp is used in the manufacture of twine, while sisal and manila fibres are imported for rope-making. After the Second World War, the easing of import restrictions and the devaluation of European currencies placed this firm in a tight position. This especially took a serious shape when the Shipping Administration - a principal user of rope - which was previously buying the local product on a preferential basis, began to import all of its needs. The firm at present is running at a loss.

4. The Misallocation of Resources

Some of the State industrial enterprises have been established without a proper consideration of the demand for their products. These enterprises have, so to speak, been victims of a 'show-off complex' which was the direct result of an intense nationalistic feeling. The Karabuk Iron and Steel Factories serve as a good example. In an attempt to create a heavy industry in Turkey, these factories were designed to produce diverse products instead of specializing in a few items, which were highly demanded at the local market. The penalty has been paid in over-integration, inefficiency, redundancy, and a high production cost. Such a waste of badly needed resources and its effect on the total productivity of the country is manifested in many State economic activities.

The misallocation of resources in private industries has come about through the indirect effect of State policies. First, as stated above, the general atmosphere of insecurity created by the State forced liquid assets into unproductive channels and consequently reduced the potential productivity of the country. Second, the exemption of small firms from the Production Transaction Tax (which generally goes up to 18 per cent on manufactured goods) has created a tendency towards the dispersal of operations and has prevented proper integration. Thus, private firms have been forced to operate in less than optimum units. The result has been a deliberate relinquishment of large-scale operations and higher production costs. Likewise, the Income Tax Law prior to 1947 has led to the distribution of extra-heavy ~~dividends~~, dividends. This was because in personal income taxes,

dividends were exempted only if they were distributed in the same year as the profits were made(39). The result has been a lack of proper provision for depreciation and replacement(40), a less than optimum combination of factors, a fall in efficiency, and a high production cost.

5. The High Rate of Interest

The advantages which are conferred upon State enterprises are numerous. Among them, the State's access to capital and to foreign exchange for equipment and raw materials are the most important. ~~The rate~~

The rate of interest does not seem to have bothered State enterprises much. To begin with, the availability of the rediscounting mechanism, at an effective rate of 1 per cent with the Central Bank, has met a substantial part of their need for liquid assets. It is true that the servicing of the public debt at about 7 per cent weighs heavily on the Government's annual revenue. But, with the various devices at its disposal, the State can always manage to keep solvent.

The case with private enterprise is quite the opposite. First, the dearth of capital in Turkey has always been a serious problem. The general insecurity created by State policy has forced part of this capital into hiding or real estate or has been sent abroad, and has reduced the already meagre resources. In addition to this, private enterprise has had to compete with the State, in less than par capacity, on the remaining pool of capital. ~~As a result~~ Consequently, the rate of interest has soared high. Medium- and long-term capital

has almost been non-existent. Short-term bank lendings have been confined to a 90-day commercial bills (and non-renewable at the Central Bank if rediscounted) at an effective rate of 10 to 12 per cent. Private industrialists who could not procure the capital from Commercial Banks have had to take recourse to private borrowing at a much higher rate of interest. Accordingly, the unfavorable effect of interest on private investment has been considerable.

To illustrate our point, it is sufficient to take a look at the great enthusiasm with which the Industrial Development Bank of Turkey has met. Influenced by Point IV authorities and instigated by the International Bank of Reconstruction and Development, in late April 1950, a consortium of eighteen private banks, industrialists, and business groups signed the statutes of this Bank. The Bank will be devoted exclusively to the financing of private industry. Among the various inhibitory factors for the development of private industries which were seriously discussed at the meetings of this consortium a few are pertinent to the context of our immediate analysis. These are the general recognition of a lack of medium- or long-term money and the excessive interest rate, both of which are thought to have had a great influence in limiting or retarding private investment. Accordingly, measures were discussed to alleviate this situation by providing private enterprise with long-term loans at moderate rates of interest and attempt at creating a Securities Market in Turkey. The opinions expressed at the Consortium were fairly representative of private enterprise in general. A judgment about the success of the Bank will have to wait

a few years after it starts operation. But the important point for us to remember is the fact that the existing high rate of interest was considered to be a serious detriment to private investment the solution of which was thought to deserve an immediate consideration.

6. The High Cost of Fuel and Energy

It is unfortunate that the Statists have not made proper use of Turkey's water and coal resources, both of which are indispensable factors in industrial production and weigh heavily on their costs. The high cost of coal is partly due to inefficient labor, partly to antiquated technique in use, and partly to high transport cost. A considerable part of transport cost of coal is caused by the delays of ships at the harbors due to the lack of proper harbor facilities(41). Let us take the cement industry for illustration. Coal at some cement factories is used both for the ovens and for generating electricity. According to the figures of one factory, for 1937-1938, coal expenses formed 11.78 per cent of their total production cost. The average figure for all factories in the same year was around 16 per cent(42).

The case of electricity present a different picture. It is either a variable or a fixed cost depending on whether it is furnished from outside or is generated at the factory. In the latter case, it tends to weigh heavily on the total cost of production if the factory works μ under-capacity or if the size of the factory is not proportional with the productive capacity of the installed generator.

According to the 1937-1938 statistics, half of the Turkish cement industry generated its own electricity. And due to the fact that this

industry has not been working at the technically optimum point of / production, electricity cost has weighed heavily. In one factory, it constituted 16.68 per cent of the cost of production(13).

Prior to 1935, the percentage of electricity cost was even higher. The reason was because of the 'Electricity Consumption Tax' which was imposed at one piaster per K.W.H. In the case of the cement industry, it added to about 100 piasters per ton. It was rather unusual for a country which tried to get industrialized to deliberately discourage the use of electricity. However, this mistake was later realized and the tax repealed in 1935. But the fact remains that electricity cost is still relatively high and naturally retards industrial development in Turkey.

7. High Taxes and their Effect on Industry

Taxation, as mentioned above, was one of the major sources on which the Government relied for her extensive industrialization program. Our attempt at this juncture is to show the effect of such a policy on industries. To demonstrate our point, we again have to resort to the cement industry.

According to the 1940 statistics, a cement factory was subjected to four kinds of taxes which added up to TL 2.35 per ton(14). This constituted 14.50 per cent of total production cost. The 1937-1939 statistics show that the average percentage of total taxes to total cost of production for the entire industry ranged between 13.95 and 16.25 per cent. The distribution of taxes in one of the factories was as follows:

Production Transaction tax	TL 2.00
Forestry tax	0.23
Crisis tax on profits	0.04
Buildings and Awkaf tax	0.08
Total	<u>TL 2.35</u>

The Transaction Tax is imposed on the sales of cement at 10 per cent of total sales. It ranges between 180 to 210 piasters per ton. Accordingly, it is a 'proportional' tax and increases pari passu with production. The Forestry Tax is a kind of 'Quarries' tax and is imposed at 23 piasters per ton of ore. Again, it is a 'proportional' tax. The Crisis Tax on profits is imposed at progressive rates on net profits and is insignificant. The Building and Awkaf tax is composed of several taxes and is fixed. It ranges between 4 and 32 piasters.

It follows that the 'proportional' taxes form about 90 per cent of the total taxes and have the character of increasing pari passu with production. This is especially detrimental to the cement industry which is working in less than optimum capacity, as it greatly discourages expansion.

To the above taxes, we have to add the customs duties on the importation of raw materials for sack-making (jute or paper) which form 6.5 per cent of the total cost. Thus the per ton cost of taxes rises to TL 3.50 and forms about 20 per cent of total cost of production.

The following data give an idea as to how taxes in Turkey compare with those of other countries(45):

Germany	78 piasters
Greece	70
Yugoslavia	50
Bulgaria	110
Rumania	185

Thus, in the above countries, taxes constitute 3~~4~~5-5 per cent of the total cost of production(46).

The conclusions derived above may not be applicable, in the same degree, to all types of industries. But, there is no doubt that taxes constitute a substantial percentage of production cost in all industries.

6. The Amortization Problem

It is sometimes alleged that the tendency in under-developed countries is to amortise capital in a much shorter period than the natural life-span of the capital itself; thus adding unproportionally to the cost of their products which makes it difficult to compete with similar foreign products.

In the case of Turkey, this problem presents itself in different forms. There is a general agreement that traders in Turkey expect a high rate of profit on their capital(47) and attempt to complete the amortization of their investment in two or three years. Such commercial practices naturally tend to increase the selling prices of the products; especially if it is practised by all traders and there is no fear of keen competition. This is usually a consequence of a lack of stability (both economic and political) in the country but is mostly caused by the latter. Examples of this type are aplenty in

in Turkey. The risks involved in business and which have a purely economic character are factors which enter into the calculation of business men, and, barring abnormal conditions, are relatively predictable. But the economic disturbances which are caused by political decisions, especially if these decisions are arbitrary and capricious, render the whole activity completely insecure. Under the circumstances, expectations of high profits and a short-period amortization becomes justifiable and rational.

In the private industrial sector of Turkey, we find different practices. First, as mentioned above, there is the case where, due to the structure of the income tax, practices have developed which pay extra-profits, to the neglect of enough provision for replacements when the time becomes due. Second, there is the practice of over-valuation of fixed assets on balance sheets and the provision of inadequate funds for depreciation. This, it is claimed, has been due to the fear of expropriation and an attempt to establish a legal basis when the Government asks for the transfer of property. But the points mentioned here do not represent the common practice of depreciation in the Turkish industries. Admitting that Economic policy has had its unfavorable effects on depreciation practices, it might be useful to discuss the actual practice in one of the Turkish industries; namely, the cement industry.

According to the statistics of 1932-1937, the fixed assets of a cement factory in Turkey were divided, in broad terms, as one third buildings, one third machines, and one third other installations.

The annual average amortization recorded for the industry (in private hands) ranged between 6 and 10 per cent. Of course, the rate of amortization differs with different items. Those which are subject to a rapid rate of physical deterioration must be depreciated at higher rates. For example, a delicate machine in a factory cannot be treated on equal basis with buildings. Again, as amortization enters as a fixed cost of production, its aggregate rate will differ with the yearly production of that firm. Also, the rate charged by a factory which operates smoothly all through the year will naturally have to be lower than that which is forced to close part of the year. Taking all these considerations together, we find that the rate charged by the Turkish cement industry is still as low as between 6 and 10 percent.

Of course, the information given above cannot be taken to be representative of the Turkish industry. First, the data refer to a period when private industry in Turkey was still encouraged by the state. Second, in the later period, the Government adopted a special cement policy in order to reduce cost and encourage its use. Third, in the absence of data, there is no way of telling whether similar amortization practices were followed by the other industrial firms. The case has been mentioned to serve only as an illustration.

9. Effects of Price Controls

Price controls, which have been ~~rather extensively~~ practised in Turkey, especially in the textile and cement industries, have had their unfavorable consequences.

a) Private enterprises in the textile industry claim that the 12 1/2 to 17 1/2 per cent of profits allowed by the Government in establishing the ceiling prices, have under-estimated the repairs and depreciation charges and the high cost of raw materials and labor; thus leaving the industry with inadequate funds for replacements and operating capital. This has put private textile industry at a disadvantage when compared with similar State enterprises. This, it is claimed, forces private enterprise to operate with antiquated machinery which lead to higher production cost and makes it difficult to compete with the State.

There is perhaps much to be said to this argument, but the fact remains that during the war private enterprise made high profits most of which was distributed to share-holders. Private enterprise is to be partly blamed for not making enough provision for obsolescence and replacements.

b) Price controls led to the misuse of State power. The State bought textile products and sold them at higher prices in order to partly cover its losses on coal and some uneconomic enterprises and partly to furnish itself with enough funds for expansion. Such a practice has incurred injustice on private enterprise and brought great sufferings to the consumers. Besides, it helped create a black market and enriched middlemen at the expense of producers.

c) In 1949, the failure of crops reduced the purchasing power of the peasants. This was especially felt at the textile industry. The Smerbank sold unbleached cloth at a price below cost which made

it impossible for private firms to compete. This, of course, added to their hardship. However, private enterprise is partly to be blamed. The general tendency among private firms is to keep an abnormally high inventory and speculate. In the 1949 crop failure, they preferred to 'sit' on their stocks rather than to move it by price cuts.

10. State Policy and Foreign Investment

The Turkish Government has through the last three decades deliberately discouraged foreign investment. The period between 1928 and 1947, as stated above(48), was characterized by State attempt to liquidate foreign companies and transfer their properties to State ownership. This is not to say that the Turkish Government did not make use of foreign capital at all. The Kayseri textile factories and the Karabuk Iron and Steel Foundries were mainly constructed through Russian and British capital respectively. Also, the main private industries in Turkey are, even at present, in foreign hands, although the total value of foreign capital is an unknown quantity. However, the tendency was to discourage it as much as possible(49). Export of capital and dividends was completely forbidden. Dividends were based upon the original amount of capital without due regard to the great depreciation in the value of the Turkish lira. Thus, the strict control imposed upon foreign capital and the biased treatment it received greatly discouraged its entrance to Turkish economic activities. This retarded the Turkish industrial progress and deprived its people from the benefits of certain productive activities which could have come through foreign investment(50).

11. Favoritism and Nepotism

In an economy as highly regimented as that of Turkey, such types of misuses are perhaps inevitable. As an active participant in the economic activities of the country, and, in some cases, in direct competition with private enterprise, the State indulged in favoritism through the ease it showed in having its enterprises corner the export licenses, imports of raw materials, credit facilities, and the foreign exchange. In such practices nepotism made its appearance. This created an atmosphere of a willing-subordination of private enterprise to the Government. To be on good terms with the State stood as the first item on the entrepreneurs' 'operation list', with its numerous unfavorable effects on Turkey's industrial development.

FOOTNOTES TO CHAPTER III

(*) In Section (A) of this Chapter we have leaned heavily on Dr. Refii Sukru Suvla's book entitled, Tatbiki Iktisat, Ikinci Kitap (Istanbul, 1948), pp. 289-384.

(1) In parts (3) and (4) of this Section we shall deal with this problem more fully.

(2) It is interesting to note that while the Government started its active interference as early as 1931, the Industries Encouragement Law was not revoked until 1942. This is one way to show that the Government was sincere in claiming protection for private enterprise.

(3) Dr. Refii Sukru Suvla, op. cit., pp. 357-58.

(4) Appendix I, Section A, Article 15.

(5) See above: the change made in the Industries Encouragement Law, 1933.

(6) See Chapter II above.

(7) The Karabuk Iron and Steel Foundries are a good example.

(8) Appendix I, Section A, Article 15, Paragraph 3.

(9) The effect of such a policy on private enterprise cannot be undermined. Especially when we know that the Government bought merchandise at dictated prices and sold them at much higher prices to the consumers in order to cover the losses of some of its industries.

(10) E.R. Lingeman, Turkey, September 1947 (London, 1948), Appendix 9, p. 160.

(11) *Ibid.*, p. 161.

(12) Max Weston Thornburg, Turkey: An Economic Appraisal (New York, 1949), p. 145.

(13) Dr. Refii Sukru Suvla, op. cit., p. 361.

(14) It is to be remembered that the number of industries mentioned are those which were admitted to the Industries Encouragement Law. Smaller units are excluded.

(15) It is to be understood that Special Administrations and Municipal Industries are also included in this group.

(16) Ahmet Ali Ozeken, Turkiye Cimento Sanayii (Istanbul, 1942), p. 115.

(17) Due to the effect of the Great Depression and a serious fall in the prices of Turkey's agricultural products. This statement should be handled with care, as the national income figures for the period in question are not available.

(18) E.R. Lingeman, op. cit., p. 161.

(19) This is a reference to the law which was put into effect in 1936 and which subjected all private enterprises with a capital higher than TL 2,000,000 to pay their workers according to an official tariff.

(20) Dr. Refii Sukru Savla, op. cit., p. 366. It is unfortunate that, due to lack of data, it is not possible for us to carry the comparison to more recent years.

(21) See above, same Chapter, Section A-1.

(22) There is no account designating these other sources and the conditions of finance. This quotation is ~~is~~ taken from Sumerbank's official publication which was translated by this author for UNRWA in the Summer of 1950.

(23) This is as the Sumerbank stood in 1947.

(24) In 1946, the number of wholesale and retail stores was 43.

(25) Dr. Refii Sukru Savla, op. cit., p. 379.

(26) E. R. Lingeman, op. cit., p. 177.

(27) This statement is not exactly true, as Turkey actually did make use of Russian and British capital, especially in form of machinery.

(28) This method, obviously, has been contrary to the declared policy of the State which promised to reduce prices for the benefit of the consumers.

(29) Such a measure is of course identical with printing money and has aggravated the problem of inflation. The question of public debt will be discussed below in Chapter VI.

(30) As there has been no real study made of private investment, there is no way of estimating its share in the Turkish industries.

(31) Sefik Bilkur, National Income of Turkey (Ankara, 1949), p. 10.

(32) Sometimes it has been impossible to have the foreign experts enter the area.

(33) Robert Kerwin, "The Turkish Roads Program," Middle East Journal, April 1950, p. 197.

(34) *Ibid.*, p. 196.

(35) Ahmet Ali Ozeken, *op. cit.*, *passim*.

(36) These are mostly bursary students who, upon the completion of their studies, are compelled to work for the Government for a number of years proportional with the fellowship they received.

(37) The latter is a reference to the case of a manager-owner.

(38) A consequence of this pressure has been the diversion of investment resources to real estate or the unproductive channels of gold and precious stones or sending them abroad.

(39) Chapter III, Section A, parts 4-6.

(40) As we shall mention below, in some economic activities, high depreciation charges is the rule.

(41) This is in reference to the coal mines near the Zonguldak harbor where ships are used in the transportation of coal to the cement factories most of which are concentrated in the Istanbul area.

(42) Ahmet Ali Ozeken, *op. cit.*, pp. 105-7.

(43) *Ibid.*, p. 102. This is when the factory was working at a capacity of 70,000 tons per year.

(44) This is an example of one of the cement factories which had a total annual capacity of 70,000 tons and a total cost of production at TL 16.72 per ton.

(45) The figures are given at the 1940 value of the Turkish lira.

(46) Ahmet Ali Ozeken, *op. cit.*, pp. 108-10.

(47) Sometimes as high as 80 per cent. Robert W. Kerwin, "Private Enterprise in Turkish Industrial Development," Middle East Journal, Winter 1951, pp. 21-38.

(48) Appendix I, Table I.

(49) Chapter I, in reference to concessions and Capitulations.

(50) Of course it is to be noted that our criticism derives its force from a purely economic approach. We are in no position to draw any judgment if the problem is taken in its entirety; that is, if political and military considerations are also included.

CHAPTER IV
THE AGRICULTURAL POLICY

Introduction

Chapter III was devoted to the discussion of Turkey's industrial activities where Etatism found its full expression. Strictly interpreted, Turkey's Etatism comes to mean "State exploitation in the field of industry alone."⁽¹⁾ But surely such a narrow use of the 'concept' is greatly misleading, as we well know that Turkey's Statistic policy ramified itself in many directions and came very close to embracing Turkey's economic activities in toto. However, it is important to note that the main emphasis was on industry and State interference in the remaining sectors of the economy was, in a sense, the inevitable consequence of such a policy.

Beginning with the Republican regime, economic discussions in Turkey seem to have revolved around three main theses⁽²⁾. The proponents of the first thesis conceived of Turkey as an agricultural country and argued that attempts should be made to increase the agricultural productivity of the country. Those who stood with the second thesis argued that Turkey should be developed to become an industrial country based on agriculture. The idea was to develop food-processing and related industries which would supplement the agricultural background. The third thesis emphatically supported the idea that a balance should be struck between agriculture and industry or even give more weight to industrial development. The

Statists seem to have favored the third thesis and thus gauged their policy accordingly.

This Chapter, as the preceding one, is divided into two sections. Section (A) deals with Turkey's agricultural activities where an attempt is made to show the 'how' and the 'where' of State interference. Section (B) is devoted to the analysis of Turkey's major economic problems in Agriculture, with a critical evaluation of the economic consequences of Turkey's Statistic policy in this sector.

A. AGRICULTURAL ACTIVITIES AND STATE POLICY

1. The Declared Statist Policy in Agriculture

In order to get a proper perspective of the State's share in agriculture or a deeper insight into State interference in this sector of the economy, we again have to resort to a comparative study of the People's Party Program in 1935 and 1947.

The first important feature of the 1935 Program is the State realization of the great need of farmers for liquid capital. Accordingly, the State made it a point, at least in principle, to furnish the farmers with the necessary credit, in an attempt to increase productivity. To reach this aim, the Agricultural Bank was entrusted with a more liberal credit policy. Also, great importance was attached to Credit Cooperatives which were to be located nearer to the farmers with the expectation of achieving higher serviceability (See Appendix II-A, Articles 7, 10, and 11).

Article 29 sees the necessity for grading and standardization of the important agricultural products. This was, of course, well conceived, as a very high percentage of Turkey's exports were comprised of agricultural products. An equally important statement is the necessity felt for the encouragement of those types of industries which could make use of agricultural products.

Finally, mention should be made of the State policy for land distribution (Article 34). This, as we shall see below, is of questionable economic significance (except State-owned land), as land ownership in Turkey is already highly atomistic.

A study of the 1947 Program presents, in some cases, a different picture. Our attempt here will be to emphasize the differences which will enable us to more closely follow up the evolution of State policy in agriculture over a period of twelve years.

Article 41 (Appendix II-B) especially stresses the importance of agriculture in Turkey's economy. Besides, great importance is attached to the necessity of raising the standard of living of the Turkish farmers and villagers(3). Articles 42 and 43 deal with land distribution. But here again new elements appear. Special mention is made of distributing all productive State land. Likewise, economic factors seem to have been given a greater share in the land distribution policy. Mention is made of the care needed in order not to discourage private ownership(4).

Article 44 mentions the need for long-term credit. This is important because, as we shall see below, the greater part of credit

extended by the Agricultural Bank and the Credit Cooperatives has been of the short-term type.

2. Agricultural Activities

a) Land Utilization and the Concentration of the Rural Population

Turkey, with a population of 20 millions and a total area of 777,000 square kilometers, has an average of 23 persons per square kilometer. This may give the impression that Turkey is under-populated. However, the fact is that, under present conditions, the opposite is true. This is because the land available for cultivation is relatively small and the number of people living on agriculture is very large. The Tables below will illustrate the point.

TABLE X
DISTRIBUTION OF LAND IN TURKEY

<u>Land Utilization</u>	<u>Area in Hectares(1000)</u>			<u>Percentage of Total</u>		
	<u>1934</u>	<u>1938</u>	<u>1949</u>	<u>1934</u>	<u>1938</u>	<u>1949</u>
Area under Cultivation	10,556	12,999	13,286	13.7	17.0	17.1
Meadows and Grazing lands	44,329	42,370	42,901	57.3	55.6	55.2
Vegetables and Fruits	1,120	1,528	1,488	0.6	2.1	2.0
Forests	9,169	9,169	11,892	11.8	12.0	15.3
Unproductive Areas	11,097	10,068	8,131	14.4	13.3	9.8

Sources: 1) E.R. Lingeman, op. cit., p. 82.
2) Office Central de Statistique, Agriculture (1934-1949), No. 4, p. 2.

Table X above shows that 17.1 per cent of total area was cultivated in 1949. But this figure is rather misleading. To get the final figure, we have to add the area used for vegetables and fruits and deduct that which is left fallow for the year. Thus, the actually cultivated area in 1949 becomes 13.6 per cent of the total area(5).

Now let us take a look at the number of people who actively participate in agricultural production

TABLE XI
ECONOMICALLY ACTIVE POPULATION BY MAJOR
OCCUPATION GROUPS, 1935 and 1945

Occupation Group	1935		1945	
	Number (000's)	Per Cent of Total	Number (000's)	Per Cent of Total
Agriculture, Forestry & Fishing	6,480	81.8	7,200	79.8
Mining & Quarrying	19	0.2	34	0.4
Industry	638	8.1	640	7.1
Transportation & Communi- cation	122	1.5	110	1.5
Commerce	218	2.8	280	3.1
Public Adm. & Professions	398	5.0	693	7.7
Domestic & Personal Services	47	0.6	30	0.4
Total	7,922	100.0	9,017	100.0

Source: IBRD, The Economy of Turkey (Washington, D.C., 1951), p. 16.

It will be observed that, in 1945, 79.8 per cent of Turkey's active population took part in agricultural production (including

forestry and fishing) and the number of people living in rural areas was almost twice that of the 1945 figure given in Table XI (6). Knowing that a very small percentage of the 1945 figure actively participated in forestry and fishing(7), the overwhelming majority of the active rural population (7,200 million) must have been working directly in agriculture. But, it is to be remembered that this figure is only slightly above one half of the people living in rural areas. It follows that roughly one half of the rural population constitute the dependents and the unemployed all of whom ~~get~~ indirectly get their living from agriculture(8). This is where the element of 'disguised unemployment' makes its appearance. Our argument becomes more convincing when we present the figures for the concentration of population in the rural areas and compare them with some of the European countries.

TABLE XIII

CONCENTRATION OF RURAL POPULATION IN
TURKEY AND SOME EUROPEAN COUNTRIES*

Country	Total Cultivate area (million Hect.)	Percentage of Cultivated area to Total Area	Total Population divided by T. Area (per Km. ²)	T. Population divided by the Cultivated Area (per Km. ²)	Rural Population divided by Cultivated Area (per Km. ²)
Turkey	8**	10.4**	23	224	190
Greece	2.3	17.8	56	n.a.	181
Bulgaria	4.0	39.6	60	134	134
Rumania	13.4	45.3	69	95	74
Italy	13.0	41.9	148	307	161
Spain	15.7	31.2	52	164	125
France	20.7	37.6	74	178	34
Germany	22.2	38.2	137	305	91
Belgium	1.0	33.5	263	640	98

(*) The figures are for 1940 and have been tabulated by this writer.

(**) Note the discrepancy between these figures and the ones given in Table X.

Source: Ali Taroglu, "Turkiyede Giftci Nüfus Yönelimi," *Revue de la Faculté des Sciences Economiques de l'Université d'Istanbul*, Vol. 6, No. 1-2, October 1944 - January 1945, pp. 43-53.

Table XII is of special significance. An uncritical approach to the problem shows that Turkey has only 23 persons per square kilometer. This is when the total population is divided by the total area. This has generally been taken as the final figure and Turkey has been referred to as being under-populated. But surely such an approach is superficial and meaningless as it includes all the uncultivable and uncultivated land which Turkey has. A second way of looking at the problem is to compare total population with the yearly cultivated area where Turkey shows a concentration of 224 persons per square kilometer. But again this is misleading. There is no justification as to why we should include that part of the population which does not actively participate or is not dependent upon agricultural production. It follows that the only relevant and sound approach is that which compares the rural population with the yearly cultivated area. Following this method, we get 190 persons per square kilometer for Turkey in 1940; a figure which is the highest among the eight European countries recorded in Table XII. Now, if we realize that agricultural productivity per hectare in Turkey is below that of European countries(9), it becomes evident that Turkey suffers from a high concentration of population in the rural area. To this we should add the trend in the rapid increase in the Turkish population which seriously aggravates the problem. This shows the necessity and the urgency of increasing Turkey's agricultural productivity, of making better use of cultivable land, and of providing opportunities where the redundant agricultural labor can find productive employment. Recent surveys predict that with the adoption of 'dry-farming' methods, along with reclamation programs, cultivable land in Turkey, in the coming few years, can be raised to 30 per cent of total area.

b) Productivity in Agriculture

The consensus of opinion is that Turkey has a low productivity in agriculture. The reasons given are the following:

First, due to the rugged nature of the land and the high degree of inclination, agricultural activities are concentrated in isolated centres. Thus, Turkey's agricultural activity has been aptly called by Dr. Suvla as 'oasis agriculture'. Second, the lack of enough rain (especially in Central Anatolia) and the concentration of rain in a short-period often causes droughts and floods which highly reduce the returns from agriculture. The State has been aware of this fact but so far not much has been done to overcome this major difficulty. Up to 1937, only TL 31 million had been spent on projects to increase the water supply, prevent droughts, and dry swamps(10). Since the Second World War, the greater part of State budget has gone into defence. According to the 1948 budget, national defence received TL 547 million or 41 per cent of total public expenditures; while the share of Public Works was TL 98 million or 7 per cent of total expenditures(11). Looked at from the political or military point of view, the State might be justified in giving so much weight to military expenditures. However, the fact remains that to the extent that such highly needed projects are left uncompleted, to that extent will agricultural productivity remain at a low level. Third, due to the lack of sufficient fuel, the peasants use the dung at home. This prevents an important source of fertilizer from going into the land. Of course, the general poverty of the peasant(12) leaves him with no funds to

invest on his land. The State has been aware of this fact and has, through its credit policy, attempted to overcome this difficulty, but with only limited success(13). Fourth, the lack of proper transport facilities has had a serious detrimental effect on agricultural productivity. This has prevented the use of land in some regions and added to inefficient use in others. As was discussed in Chapter III, up to 1945, the Government policy was to link important strategic centres with railroads. However, since 1945, the serious economic consequences of a lack of proper highway system have been realized and attempt has been made, through American cooperation, to remedy the situation.

These and many other factors such as better seeds, cold storage and silos, irrigation, changes in the traditional system of leaving land fallow, making use of all cultivable land, etc., will help to increase Turkey's agricultural productivity.

c) Turkey's Agricultural Production in Figures

The following table shows the trend of agricultural production over the years from 1934 to 1938 and from 1947 to 1949.

TABLE XIII
 AGRICULTURAL PRODUCTION IN TURKEY
 1934-38 and 1947-49
 (in 1000 tons)

<u>Crops</u>	QUANTITIES PRODUCED			
	<u>1934-38 Average</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>
Cereals	6,802.3	6,204.5	9,042.4	5,348.8
Leguminous Plants	324.9	282.7	378.2	314.7
Industrial Plants	1,007.0	1,347.1	1,736.5	1,900.5
Fruits	244.8	273.8	211.1	241.2

Source: Office Central de Statistique, Structure et Production Agricole, 1934-1950, No. 329, Ankara, 1951, p. 12.

The above table shows that cereal production occupies (in weight) a leading position. The year 1948 was one of especially good harvest, to be succeeded by a considerable drop in the year following. Turkey, since 1931, has been completely self-sufficient in cereals, with the exception of a few extremely bad harvests at which time it was found necessary to import some. The year 1948 was an exceptionally good year for all products except fruits where it reached its minimum at 211.1 thousand tons. Also, an important exception is found in the industrial plants which follow a considerably rising curve, reaching their maximum in 1949 at 1900.5 thousand tons.

The productivity of some selected crops for the same years are given below.

TABLE XIV
 PRODUCTIVITY PER HECTARE
 (in Kilograms)

<u>Crops</u>	<u>1934-38</u> <u>Average</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>
<u>Cereals</u>				
Wheat	1,023	777	1,087	606
Barley	1,119	837	1,185	707
Rice	2,000	2,289	2,307	2,230
<u>Legumes</u>				
Broad beans	1,043	690	893	795
Peas	667	594	500	1,000
Beans	838	760	924	833
<u>Industrial Plants</u>				
Tobacco	772	772	783	787
Potatoes	3,291	5,209	6,878	6,633
Sugar Beets	15,429	13,891	14,816	16,019
Cotton(pure)	224	249	194	293

Source: Office Central de Statistique, Resumes Statistiques, 1934-49, No. 4, Ankara, 1950, p. 3.

No significant change is recorded in the cereals and leguminous crops. Potatoes show a considerable increase.

The following table shows the total number of animals in Turkey for the years 1938 and 1947-49.

TABLE XV
NUMBER OF ANIMALS IN TURKEY
(in 1000 heads)

<u>Animals</u>	<u>1938</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>
Sheep	23,138	24,580	25,810	23,582
Goats (Ordinary)	11,329	13,104	14,612	17,760
Mohair goats	4,945	4,154	3,946	4,261
Cattle	9,311	9,801	10,279	10,351
Buffaloes	885	947	937	906
Camels	114	104	109	109
Horses	964	1,071	1,164	1,139
Mules	71	96	103	105
Donkeys	1,490	1,734	1,711	1,695
Total	52,247	55,591	58,701	55,908

Source: Office Central de Statistique, op. cit., p. 5.

It will be noticed that the increase over a period of twelve years is surprisingly small.

The following table shows the amount of meat produced in Turkey over a period of fifteen years.

TABLE XVI
MEAT PRODUCTION IN TURKEY
(in tons)

	<u>1931-38</u> <u>Average</u>	<u>1946</u>	<u>1947</u>	<u>1948</u>
Total	59,213	79,116	76,786	75,043

Source: Office Central de Statistique, Ibid.

The increase in meat production seems to follow the population trend. In 1935, total population was above 16 million. In 1948,

the population was close to 20 million. However, the per capita meat consumption is still very low. According to the estimates of the "Food and Agriculture Organization" the level of consumption in Turkey is the lowest in Europe. The following table is illuminating.

TABLE XVII
CONSUMPTION PER HEAD (in Kgs.)
(1937-38 averages)

Country	Cereals	Roots	Sugar	Fat	Dry Beans	Meat	Total
Turkey	170	9	5	3	30	20*	506
France	129	113	22	13	11	67	846
G. Britain	96	80	50	21	6	86	608

(* In the Turkish statistics the number is 7 Kgs.

Source: Dr. Refik Sukru Suvla, "La Turquie et le Plan Marshall," Revue de la Faculte des Sciences Economiques de l'Universite d'Istanbul, October 1948 - July 1949, No. 1-4, p. 168.

As shown in the table above, even the estimated meat consumption of 20 Kgs. per capita is highly questionable.

The total production of milk is shown in the following table.

TABLE XVIII
MILK PRODUCTION IN TURKEY
(in 1000 tons)

	1934-38 Average	1947	1948	1949
Total	2,304	3,082	3,242	1,948

Source: Office Central de Statistique, op. cit., p. 6.

It is interesting to note that the 1949 total production of milk has decreased considerably as compared to the 1934-38 average.

The total value of exports of agricultural products (animal products included) are given in the following table.

TABLE XIX

EXPORTS OF TURKEY'S PRINCIPAL AGRICULTURAL PRODUCTS (in TL 1000)

	<u>1935-38</u> <u>Average</u>	<u>1947</u>	<u>1948</u>	<u>1949</u>
Total	124.1	625.2	552.0	693.9

Source: Office Central de Statistique, op. cit., p. 10.

The great increase in the value of the products is due to the general inflationary prices after the war. This tendency appeared in an acute form in Turkey, where the wholesale price index more than quadrupled.

In the light of the above figures, we can safely conclude that in a period of over a decade the agricultural sector of the Turkish economy has not recorded any significant increase in productivity.

3. The State and Land Policy

Obviously, there is no economically universal law which can be applied in the determination of the optimum size of a plot of land, as it differs for countries and regions and depends upon fertility, the availability of capital and labor and many other factors.

Due to the lack of completion of the cadastral surveys in Turkey, it is not possible to give a definite answer in regard to the average plot holdings in Turkey. The available statistics are controversial and highly unreliable.

Dr. Suvla(14) classifies land holdings as follows:

<u>Holdings</u>	<u>Area</u>
Dwarf	Less than 0.5 hectares
Small	0.5 - 5 hectares
Medium	5.01 - 20 "
Large	20.01 - 100 "
Very large	more than 100 hectares

He concludes that in Turkey large holdings are average, medium and small-sized plots limited, and 'Dwarf' plots abundant.

According to Mears(15) the average plot in some of Turkey's main provinces is as follows:

Erzurum	1.5 hectares
Van	3.3
Diyarbakir	4.0
Urfa	3.1
Adana	4.5
Ankara	4.1
Konya	3.4
Sivas	2.4
Aydin	4.5

According to Thornburg(16), of 2.5 million farms in Turkey, 97 per cent are of 50 hectares or less. The average size of a farm is roughly 6 hectares. Middle-sized farms, ranging from 50-500 hectares, number 57,000 or 2.3 per cent of the total. Also, there are 418 farms of over 500 hectares.

Beginning with the Republican regime, the State decided to help bettering the lot of the farmers. In addition to the abolition of the tithe, it embarked upon land reform.

According to Haldun Berin(17), the 1933 estimates show land ownership as follows:

Individual ownership	5% of total area
Miri land(18)	30%
Khaliyah(Mawat) (18)	10%
Matrukah(18)	40%
Waqf(18)	15%
Total	100%

In 1934 the Minister of Interior made the statement that 5 million people in Turkey worked on others' land. According to a speech delivered by Ismet Inom in 1936, even in places where land was distributed into small plots, one half of the population did not own any. Estimates of land distributed by the State to farmers in the period between 1930 and 1937 show the figure of 1,280,881 dunnams (dekar) of land valued at TL. 4,623,965 (19).

The Land Law of 1945 carries the ambitious purpose of trying to make all farmers and Turkish immigrants of rural background own land. According to this law, no Government department, company or private individual is allowed to own more than $4\frac{1}{2}$ square kilometers of land. Through this measure the State hopes to be able to distribute about 8,000,000 hectares of land. The size of plots will differ according to fertility and location. Present owners will be compensated by a 4 per cent Government bonds. Receivers of land will be charged the official rate, payable in twenty years and carrying no

interest. Also, the law specifically forbids the splitting up of the plots among heirs(20). However, it is appropriate to mention at this juncture that this law has been a subject of hot debates in the Turkish Parliament and its application postponed.

The recent attempt at land reform seems to have been greatly motivated by State policy to give an end to share-tenancy. It is hoped that private ownership will increase initiative, encourage better use of land, and make capital investment on land more desirable(21). This is of course well-conceived. But, even if this law is carried through, its usefulness to the Turkish rural society is questionable. First, share-tenancy has its background in the economic and social structure of a country. It is very unlikely that this highly complicated problem can be solved through land distribution alone. Second, there is no doubt that it will take a long time before such an extensive program of land redistribution is completed. In the mean time, its adverse economic effects on present land-owners can become rather serious. Third, ~~culti~~ privately-owned cultivable land in Turkey, due to the inheritance system, is already highly fragmented. A proper use of machinery in agriculture will perhaps necessitate the consolidation of existing plots. This is not to say that all cultivable land in Turkey at present (private- or state-owned) is used efficiently. But the fact remains that any contemplated increase in agricultural productivity will have to come mainly from other sources, such as the development of the irrigation system, improvements in storage and transport facilities, making use of the vast pasture lands, improvement in the seeds and farm implements, and the development of complementary agricultural industries. Agriculture in Turkey at present suffers from

'disguised unemployment'. The attempt should not be to make all farmers own land, but rather to develop the other sectors of the Turkish economy (in addition to the improvements which have to made in agriculture) where the redundant labor force in agriculture can be productively employed.

4. Marketing and Price Policy

Active State interference in agricultural activities was the immediate result of the Great Depression. The price of wheat then fell to such a low level, with its consequent adverse effects on the farmers and the economy, that the State found it necessary to pass a law authorizing the establishment of a State agency, under the Agricultural Bank, to buy, sell, and store all the wheat offered on the market.

The important articles of the 1932 law were as follows(22):

1. In order to protect and regularize wheat prices, the Government is entitled to establish prices and purchase through the Agricultural Bank.
2. The Government will control and supervise the sales, purchases, and storing of wheat.
3. Losses not exceeding TL 1 million incurred from the sales of wheat will be met by the Government and the obtained profits will be spent on silo and storage facilities.
4. The credit extended by the Agricultural Bank for the purchases of wheat and the rate of interest charged will be mutually agreed upon by the Government and the Agricultural Bank.
5. The Agricultural Bank is compelled to pay in cash for all its purchases of wheat.

The main purpose of this law was to prevent the fall of wheat prices below a certain minimum.

This same agency was reorganized in 1938 under the name of "Central Office of Soil Products" which has commonly come to be known as "Toprak". As a result of this reorganization, Toprak was put directly under the jurisdiction of the Ministry of Economy but was continued to be financed by the Agricultural Bank. In 1939 its power was extended to purchase and sell barley and oats, in addition to wheat, and to control peanut production and the opium monopoly. During the Second World War, Toprak received additional power which made it possible for it to deal with cereals, rice, peas, and other food products. It also entered into direct competition with private enterprise in operating flour-mills and bakeries, received full control of exports and imports of food-products, dealt with grading, standardization and storage problems, etc. Since 1945, however, Toprak has loosened its grip on the economy but it continues to operate. In spite of all its activities, some of which were salutary, its contribution to the improvement of marketing channels has been negligent.

Along with Toprak, "Sales Cooperatives" were organized in 1935 (Law No. 2834), hoping to improve the quality of agricultural products and stabilize prices. Installations necessary for preparation, processing, and packing were provided by the Agricultural Bank or through Credit Cooperatives on long-term loans. The activities of the Sales Cooperatives did not actually start until 1937. These were organized under ^w"Wholesale" and "Export" Cooperatives. State interference appeared in different forms according to whether the products were meant for exports or home consumption. In the case of the former, special emphasis was laid on standardization and grading. Also, the activities

of the export merchants were carefully scrutinized to avoid individual offers and price-dictation by foreign companies. Likewise, the Government spent special effort in trying to sign international trade treaties and monetary agreements in order to facilitate exports. Again, to avoid price falls after the harvest, the State interfered to establish minimum prices, thus hoping to control price fluctuations.

Also, mention should be made of a special case where the State appears as farmer-producer. The whole thing started after Ataturk's death in 1938 according to whose will his "Model Farms" were transferred to the State. These farms were later organized into "Agricultural Combines" with the main purpose of introducing modern technology to the peasants. During the War, due to the high degree of mobilization and the great need for cereals, these State farms were operated to add to the country's products. The latest machines were used in "dry-farming" projects. In 1946 their total area was 300 thousand hectares and in the crop year of 1945-46 they produced 125,580 tons of wheat and 21,000 tons of barley(23). However, it should be mentioned that the main purpose behind their operation is simply educational.

A different type of State Agency called ~~the~~ "The Turkish Agricultural Material Office" was established in 1943. Its main purpose was to provide the Turkish farmers with all sorts of agricultural implements, machines, artificial fertilizers and insecticides. This Agency directly contacts foreign and local merchants, buys at the cheapest markets and sells the products to farmers on cash or by instalments. It has a capital of TL 10 million and is authorized for an additional TL 25 million.

The State also runs a number of experimental stations and breeding institutions. One of the most successful experiments is that of cotton production. The State, in conformity with its industrial plans, has been very anxious to increase cotton production in order to feed its own mills. The results obtained have been gratifying. Annual cotton production increased from 92,000 bales in 1923 to 240,000 bales in 1946. It is estimated that with more irrigation and use of better varieties annual production can be increased to 2.5 million bales(24).

Tobacco⁴ production has received the State's special care and encouragement. Special attention has been given to the use of the best varieties, production methods, curing and packing problems. The share of tobacco in Turkey's balance of trade is considerable. Sales of tobacco to the U.S.A. in 1945 and 1946 brought to Turkey \$59 million and \$34 million respectively(25).

Sugar beets is the third important agricultural crop which receives the States attention. Growers of this crop are entirely dependent upon State refineries; the State being the sole producer of sugar and its by-products. The State finances the farmers, provides them with fertilisers and machinery, and dictates rotation technique. Producers of sugar beets also receive preferential rates on long hauls by railways, payments in kind (molasses) in addition to the dictated price. Likewise, the State has encouraged dairying and has educated the farmers in the use of waste products for fodder. Accordingly, sugar-beet growers have enjoyed a relatively high standard of living.

Hazelnuts, raisins and figs constitute an important source of foreign exchange and have thus received State attention. State aid in this field has been indirect; namely, through experiments and free advice to farmers.

Special mention should be made of tea-cultivation in Turkey. Tea is grown on the Black Sea shores near the Russian border. Because of poor land, there has always been tendencies for emigration. For political reasons, the Government found it necessary to discourage emigration. Accordingly, tea-cultivation was introduced and farmers were granted all sorts of privileges and guarantees. The economic justification of tea-cultivation is highly questionable.

Animal-raising, with the exception of the Angora goat, has received the least attention. A study of Table XV above shows ~~no~~ no significant increase over a period of more than a decade. However, there seems to be great possibilities for animal-product industries, as 55.2 per cent of Turkey's total area in 1949 (see Table X above) was composed of meadows and grazing lands.

5. Agricultural Credit Organization

Turkey's agricultural credit organization is concentrated around the activities of the Agricultural Bank. This Bank was originally established in 1888 with a nominal capital of TL 10 million. According to the law of 1924, it was reorganized as a "Societe Anonyme" and expanded its operations. However, it was actually in 1937 that it acquired its present name with a nominal capital of TL 100 million. Its main policy is to help in the agricultural development of the country and to meet the credit demand of the Turkish farmers.

The activities of the Bank are diverse in nature. It serves as a central institution for the numerous Agricultural Credit and Sales Cooperatives and has invested freely in agricultural industries or industries which make use of agricultural products. Its capital is provided from three sources: it gets 6 per cent of the annual revenue from the national property tax, special credit from the Government, and its own profits.

In addition to financing Government enterprises and Cooperatives, the Bank extends direct loans to farmers. These loans are divided into three groups:

- a) Short-term loans which are made for a maximum of one year and are meant to be spent on δ operation costs.
- b) Medium-term loans. These are made for a maximum of five years and are meant to meet the farmers' need for equipment and farm animals.
- c) Long-term loans. These are made for a maximum of twenty years and are extended to enable farmers to acquire land or invest in their farms.

A study of the Report of the Bank published in 1948 reveals the following facts(26):

TABLE XX

A SUMMARY OF A CUMULATIVE TOTAL
OF CREDIT EXTENDED BY TURKEY'S
AGRICULTURAL BANK (1947 and 1948)

<u>Titles of Agri. Credit Balances</u>	<u>End of 1947 (TL)</u>	<u>End of 1948 (TL)</u>
Total Credit Directly extended by the Bank	121,397,966	127,160,885
Total Credit extended to the Agri. Credit Cooperatives	76,807,178	66,889,263
Total Credit extended to the Turkish Agri. Material Office	<u>5,969,831</u>	<u>3,769,339</u>
Total	204,174,975	197,819,487

The Bank Report does not give details in regard to the types of loan made directly to the farmers. According to Dr. Sivla(27), the greater part of the total of TL 127,160,885 extended up to 1948 was of the short-term type. Long-term credit does not seem to exceed TL 1-2 million.

We have no record of the interest rate^s charged by the Bank for loans of different maturities. However, the rate seems to be quite low. Thornburg(28) makes the statement that the Credit Cooperatives charge members 6 to 8 per cent for revolving credit and the Bank charges the Cooperatives 3 per cent. These rates are rather low for an under-developed country like Turkey.

The figures below give a more detailed picture of the Bank's credit extension for the years 1947-1948(29).

TABLE XXI

A CUMULATIVE TOTAL OF CREDIT EXTENDED BY TURKEY'S AGRICULTURAL BANK (1944-1948)
(in TL 1000)

Credit Extended	End of 1944	End of 1945	End of 1946	End of 1947	End of 1948
1. Agricultural Credit					
Credit against mortgages	2,283	3,235	4,967	9,063	12,409
Credit guaranteed by personal integrity	32,685	48,263	57,263	85,632	90,489
Credit secured by immobile property	89	186	114	130	97
Credit not covered by preceding cases	6,464	10,643	9,499	8,582	12,344
Credit extended to Agri. Credit Cooperatives	<u>20,682</u>	<u>36,528</u>	<u>57,077</u>	<u>76,321</u>	<u>66,440</u>
Total	62,203	98,855	129,120	179,728	183,779
2. Credit on Sales					
Credit against collateral & live-stock products	1,023	4,010	8,511	10,467	10,879
Credit to Sales Cooperatives	<u>20,025</u>	<u>5,963</u>	<u>25,843</u>	<u>39,756</u>	<u>39,484</u>
Total	21,048	9,973	34,354	50,223	50,363
3. Credit by Instalments					
Total	5,057	3,876	2,970	2,010	1,392
4. Credit extended to the Turkish Agri. Material Office					
	<u>2,032</u>	<u>7,320</u>	<u>10,480</u>	<u>5,970</u>	<u>3,679</u>
Grand Total	90,340	120,024	176,924	237,931	237,213

It will be noticed that the first category of loans, which have mostly gone to small cultivators, has received the greater share of total loans. The total credit extended over a period of five years show more than 250 per cent increase.

It is to be conceded that the contributions of the activities of both the Agricultural Bank and the Credit Cooperatives have been considerable, but certainly not enough. Long-term loan facilities, which are greatly needed for developmental projects, are almost non-existent. Besides, lack of careful administration has made it possible for some loans to find their ways into consumption. Such a misuse of investment resources have caused default on the part of borrowers and restricted the possibilities of future credit expansion.

6. Agriculture and National Income

An attempt was made above (Section A-2-c) to give a general picture of Turkey's agricultural production over a period of more than a decade. Basing our judgment on those figures, we were able to conclude that no significant increase in agricultural production had taken place over that period.

The following indices, with the exception of cotton, are consistent with our conclusion.

TABLE XXII
 INDICES FOR THE VOLUME OF AGRICULTURAL
 PRODUCTION IN TURKEY
 (1938 equals 100)

<u>Year</u>	<u>Cereals</u>	<u>Legumes</u>	<u>Cotton</u>	<u>Tobacco</u>	<u>Fruits(1)</u>	<u>Animals(2)</u>
1929	70	99	98	63	86	66
1935	61	93	80	62	96	77
1936	92	90	79	127	93	86
1937	88	99	100	125	112	93
1938	100	100	100	100	100	100
1939	98	110	98	112	137	104
1940	100	115	119	123	116	106
1941	82	104	99	94	125	107
1942	101	122	114	101	110	102
1943	84	118	82	90	97	96
1944	71	84	91	106	109	100
1945	48	37	84	120	102	103

(1) Raisins, figs and olives.

(2) Change in stock.

Source: Vedat Eldem, "Le Revenu National de la Turquie," op. cit., p. 79.

As will be seen from the above figures, the volume of cotton production has dropped from 100 in 1938 to 84 in 1945. The last figure is even lower than that of 1929. This is inconsistent with the figures given above, where it was stated that cotton production increased from 92,000 bales in 1923 to 240,000 bales in 1946; or an increase of over 260 per cent in volume. The fact that the indices for cotton production between 1923 and 1929 are not available makes comparison difficult. But knowing that cotton production experiments in Turkey did not give fruitful results until after 1942, we can safely conclude that the index number given for cotton in 1945 ought to have been much higher.

Now, when the indices given in Table XXII are weighted(30), a general index for Turkey's agricultural production is obtained.

TABLE XXIII

A GENERAL INDEX FOR TURKEY'S AGRICULTURAL
PRODUCTION
(1938 equals 100)

1929	73
1935	72
1936	93
1937	95
1938	100
1939	105
1940	106
1941	95
1942	103
1943	86
1944	86
1945	74

Source: Vedat Eldem, *Ibid.*, p. 80.

A comparison of the indices for 1935 and 1945 show an insignificant increase in agricultural production which, taking the agricultural sector as a whole, is consistent with our figures in Table XIII.

The following table shows the total ^{gross} value of Turkey's ~~gross~~ agricultural products. The prices used in the determination of value are the average purchase prices as published by Turkey's Office of Agricultural Products.

TABLE XXIV

THE GROSS VALUE OF TURKEY'S AGRICULTURAL PRODUCTS
(in TL 1,000,000)

	<u>1929</u>	<u>1935</u>	<u>1938</u>	<u>1944</u>
Cereals	528.3	222.7	334.5	1,202
Legumes & Potatoes	49.0	21.5	29.5	153
Industrial Plants	77.1	46.8	64.0	301
Fresh Vegetables	40.0	19.0	21.0	85
Fresh & Dry Fruits	<u>177.6</u>	<u>103.1</u>	<u>129.2</u>	<u>472</u>
Plant Products	872.0	413.1	578.2	2,213
Animal "	280.7	170.6	214.1	1,314
Forestry & Fishing	<u>73.0</u>	<u>38.6</u>	<u>44.3</u>	<u>130</u>
TOTAL	1,225.7	622.3	836.6	3,657

Source: Vedat Eldem, *Ibid.*, p. 81.

It will be noticed that the fishing and forest industries are included in agricultural products. The great drop in the value of agricultural products in 1935 was the result of the Great Depression which adversely affected Turkey's gross national income. The great increase in the value of agricultural products in 1944 is due to the inflationary effect of World War II.

Now, when the expenses incurred by producers are deducted, the net income from the agricultural sector is obtained. The following table shows the net value of Turkey's agricultural products for the same years.

TABLE XXV

NET REVENUE FROM TURKEY'S AGRICULTURAL
SECTOR
(in TL 1,000,000)

	<u>1929</u>	<u>1935</u>	<u>1938</u>	<u>1944</u>
Cereals	965.3	160.5	210.5	986
Legumes, etc.	35.6	18.5	20.2	119
Industrial Plants	63.1	39.5	53.2	244
Fresh Vegetables	32.0	16.2	16.8	68
Fruits	136.0	82.0	110.0	398
Plant Products	632.0	316.7	410.7	1,815
Animal Products	223.3	125.9	169.6	979
Forest & Fishing	64.0	33.6	39.3	412
Total	919.3	476.2	619.6	2,906
"Frais Communs"	-81.8	-55.5	-64.7	-128
Net Revenue	837.5	420.7	584.9	2,778

Source: Vedat Eldem, *Ibid.*, p. 82.

The figures given in Table XXV are, of course, rough estimates and are bound to be lower than the actual value of production. This is because a considerable part of Turkey's agricultural products is consumed by the peasants and does not reach the market.

According to Sefik Bilkar(31), Turkey's income from the agricultural sector in 1943, measured at factor cost (forestry and fishing included), was TL 2,620 million, as compared to TL 435 in 1935/36, and formed 47.6 per cent of the national income (32.7 per cent in 1935/36). But when it is deflated to the 1935-36 prices, it becomes TL 660 million, or 38.8 per cent of the deflated national income. This is roughly an increase of 30 per cent over a period of eight years. The per capita income in the rural area rose from TL 35 in 1935/36 to TL 46 in 1943 (at 1935/36 prices) (32).

In conclusion we can say that in a country like Turkey where over 75 per cent of the population work in agriculture - an activity as important as to form about 40 per cent of the national income - the per capita income is extremely low. This reflects the general poverty in Turkey at present. And surprisingly enough, the Statist~~s~~ have done very little to raise the productivity of the great majority of their people.

B. THE STATISTIC POLICY AND ITS EFFECTS ON AGRICULTURE

1. The major criticism which can be directed against Turkey's Statistic policy in agriculture is the selection of the wrong policy from the very beginning. It is true that much lip service has been paid to the importance of agriculture for Turkey, but, in practice, State contribution to that end has been negligible. Had the Statist~~s~~ chosen to apply the second thesis, namely, the development of Turkey's industries in the light of its agricultural background, the economic picture in Turkey at present could have been completely different, and more promising to that effect. Instead, the Statist~~s~~ concentrated on industrialization at any cost, with no proper recognition of Turkey's economic structure and the best possibilities of its development.

2. It is generally recognized that the State's indirect interference in a country's agricultural activities is a salutary sign. By this of course we mean the attempt on the part of the Government to provide its farmers with the necessary prerequisites such as a good transportation system, irrigation facilities, improvements in marketing channels, storage facilities, educational programs, credit extensions, etc.; all of which

are conducive to higher productivity in agriculture. With due recognition of the Statists' contribution in this direction, we can safely conclude that what was actually done in Turkey was most insufficient. The figures we presented above do not show any appreciable increase in agricultural productivity over a period of more than a decade. For this there is nothing but the Statist ~~is~~ policy to blame. It is true that the Turkish Government had limited resources at its disposal and that since 1939 a high percentage of the Budget has gone to military expenditures. But it is equally true that a considerable part of investment resources has~~d~~ been channelled into relatively unproductive directions or even to monuments and impressive public buildings which the Turks could ill-afford.

A study of Japan's agricultural development(33) between 1881 and 1920 shows that agricultural productivity increased by 77 per cent. This was mainly done through the adoption of certain techniques which saved land, was applicable to small farms and required small capital-outlay. The assistance of the Japanese Government to the farmers was great. We readily recognize the fact that Turkey and Japan are not exactly comp~~ar~~able. However, we have enough reasons to believe that an attempt on Turkey's part to adopt similar methods would have resulted in much higher productivity than what has actually been attained.

We showed in our discussion above that although Turkey has a vast land as compared to its population, the yearly cultivated land is but a small percentage of the total area. Likewise, we attempted to demonstrate the existence of a serious case of 'disguised unemployment'

in Turkey's agricultural sector. Again, due to the inheritance system, and following Dr. Suvla's findings, a very high percentage of Turkey's farms belong to the "dwarf" type which do not lend themselves to a productive use of tractors. Disregarding a complete revision of Turkey's land-tenure system, the constant cry of the need for big farm machines at present becomes wholly unjustifiable. What Turkey really needed was a shift to a more intensive type of agriculture with a simultaneous development of related industries where the redundant labor force could be productively employed. The Statists are to be blamed for not having foreseen the great need and urgency of economic development along these lines.

3. As stated above, over 50 per cent of Turkey's land is composed of pastures and meadows. This naturally provides the best opportunity for the development of livestock and related industries. Our figures show that over a period of eleven years the increase in livestock has been most negligible. There was no reason whatsoever as to why Turkey could not make proper use of this opportunity and provide the European markets with semi- or manufactured animal and food products. The required capital-outlay and experimentation expenses would have been relatively small.

4. The main purpose behind the "Toprak" office was the stabilization of the prices of agricultural products and the attempt to improve quality and help in standardization and grading. Although it has had some contribution in this direction, its success in stabilizing prices was very limited. This was due to the lack of enough storing facilities.

In 1947, the owned and rented storage capacity was slightly over 400,000 tons; whereas, the estimated need for storage, in order to successfully carry the stabilization policy, for the same year, was over a million tons. Thus, the lack of proper provision for storage defeated its own purpose. Besides, during the Second World War, Toprak entered into direct competition with private enterprise by owning and operating flour-mills, bakeries, etc., which is thought to have adversely affected private initiative. However, we do not find much weight behind this argument, as what Toprak did was a result of war exigency. The fact that since the Second World War it has left these activities to private enterprise is a proof of our point.

5. The outstanding characteristic of an important part of Turkey's exported products is that they are of the semi-luxury type; crops such as tobacco, ^araisins, figs, and hazelnuts. For example, tobacco, raisins, and hazelnuts alone formed over 50 per cent, in value, of Turkey's 1949 total exported products. Due to the relatively elastic demand for such products, a rise in their prices or unfavorable business conditions in the importing countries, bring about a serious decrease in demand, with adverse consequences on Turkey's balance of payments. The Turkish Government has recognized this fact and has done considerably to improve their qualities and standardize them so that she could help in creating a relatively stable market. But the commercial and foreign trade policies she followed for over a decade were not conducive to the creation of permanent markets and regular customers. More will be said about this in the next chapter.

6. It is to be conceded that the Government, through the Agricultural Bank and its Credit Cooperatives, has done considerably in trying to meet the farmers' credit need. However, as was discussed above, the greater part of this credit was of the short-term type which could not be used for investment purposes. Also, part of this short-term credit seems to have been dissipated in consumption due to the lack of proper control of credit extension. This has brought about hardship to the farmers and has forced the Agricultural Bank to contract its credit. The fact remains that there is much to be done in both the administration of short-term credit and the extension of long-term credit facilities.

FOOTNOTES TO CHAPTER IV

(1) Dr. Mahlis Ete, State Exploitation in Turkey (Ankara, 1951), p. 5.

(2) Selahattin Birken, Turkiyede Devletçilik: bagimsizlik ve refah yolu; Liberalism: istismar ve kolektif (Istanbul, 1950), *passim*.

(3) Ataturk, in all his social and political reforms, tried very hard to win the allegiance of the villagers. Likewise, the People's Party constantly had the villagers in mind. But this recent emphasis on the importance of villagers makes one speculate whether it was not the results of the 1946 elections (where the Democrats won close to a hundred seats in the Turkish Parliament) which made the People's Party leaders lay so much stress on villagers; thus hoping to win their allegiance in the 1950 elections.

(4) Again, an apparent influence of the Democrats.

(5) This figure was arrived at by adding the cultivated are to that of vegetables and fruits minus the fallow land (5.5 per cent) for 1949. The latter figure is taken from the second source in Table X.

(6) Turkey's total population in 1945 was 18.8 million and the number of people living in rural areas, in the same year, was 14,103,000. Source: Office Central de Statistique, Structure et Production Agricole (1934-1950), No. 329, p. 1.

(7) This is the consensus of opinion.

(8) This statement is not, of course, entirely correct, as, among those people who are classified as rural, there surely are many who participate in non-agricultural activities but who have not been properly recorded in the statistics.

(9) This is the consensus of opinion but we could not obtain figures for the European countries to make comparison possible.

(10) Omer Celal Sarc, "Economic Policy of the New Turkey," Middle East Journal, October 1948, pp. 430-446.

(11) Dr. Refik Sukru Suvla, "La Turquie et le Plan Marshall," Revue de la Faculte des Sciences Economiques de l'Universite d'Istanbul, (October 1948 - July 1949), No. 1-4, pp. 155-177.

(12) The rural per capita income in 1935/36 was TL 35 and in 1943 (at 1935/36 prices) was only TL 46.

Source: Sefik Bilkur, *op. cit.*, p. 11.

(13) This point will be discussed in details under the section called "Agricultural Credit Organisation."

(14) Dr. Refii Sukru Suvla, Tebbiki Iktisat, Ikinci Kitap (Istanbul 1948), p. 219.

(15) *Ibid.*, p. 234 (footnote).

(16) Max ^w Weston Thornburg, *op. cit.*, p. 64.

(17) Haldun Derin, Turkiyede Devletcilik (Istanbul, 1940), p. 61.

(18) Said Himadeh, Economic Organization of Syria (Beirut, 1936),

p. 53, Miri land "is/ land over which the State retains the right of ownership while the right of occupation is enjoyed by private individuals."

Khaliyah-Mawat is a category of land which is very close to Khaliyah-Mubahah. The latter is defined on page 54 as: "This is unowned or unreclaimed land, not assigned to any particular town or village. It must be beyond shouting distance from the nearest village. Any person in need of land, may with the permission of the authorities, use such land but legal ownership remains vested in the State."

Matrukah land is of two types: Muraffaqah and Mahmiyah. On page 54, Matrukah-Muraffaqah is defined: "This form of land tenur applies to stretches of land assigned to the inhabitants of a village or town, or several villages or towns grouped together, such as threshing floors, forests, pastures, and the like." On the same page, Matrukah-Mahmiyah is defined: "This is land owned by the State but reserved by law for the use of the general public, and not for a particular community, such as high-ways, public cemeteries, and so forth."

On page 55, Waqf is defined: "Waqf lands are mortmain property, which has been dedicated to some religious or charitable object."

(19) Haldun Derin, *op. cit.*, p. 57.

(20) This strict provision is applicable only to the land expected to be distributed.

(21) Omer Lutfi Berkan, "Gıftciyi Topraklandırma Kanunu," Revue de la Faculte des Sciences Economiques de l'Universite d'Istanbul, October 1944 - January 1945, Vol. 6, No. 1-2, pp. 54-115.

(22) Dr. Refii Sukru Suvla, Tebbiki Iktisat, Ikinci Kitap, p. 278.

(23) Max ^w Weston Thornburg, *op. cit.*, p. 67.

(24) *Ibid.*, pp. 69-70.

(25) *Ibid.*, p. 70.

(26) Report of the Agricultural Bank of the Turkish Republic, 1948, p. 8. (Translated from French by this writer for the UNRWA in the Summer of 1950.)

(27) Dr. Refii Sukru Suvla, Tatbiki Iktisat, Ilinci Kitap, p. 265.

(28) Max Weston Thornburg, *op. cit.*, p. 60.

(29) Report of the Agricultural Bank, *op. cit.*, p. 9.

(30) The weights applied to different products are as follows:

Cereals	50
Legumes	3
Cotton	3
Tobacco	3
Fruits	11
Animals	26
	<u>100</u>

Source: Vedat Eldem, "Le Revenu National de la Turquie," Revue de la Faculte des Sciences Economiques de l'Universite d'Istanbul, October 1947 - January 1948, No. 1-2, p. 79 (footnote).

(31) Sefik Bilkur, *op. cit.*, pp. 10 and 11.

(32) Rural population increased from 12,400,000 in 1935/36 to 14,200,000 in 1943.

(33) Bruce F. Johnston, "Agricultural Productivity and Economic Development in Japan," The Journal of Political Economy, LIX, No. 6, pp. 498-513.

CHAPTER V
THE FOREIGN TRADE POLICY

Introduction

An attempt was made in the preceding two chapters to outline Turkey's Statist policies in the industrial and agricultural sectors of the Turkish economy through which the leaders hoped to accelerate the rate of economic development. Under the circumstances, they could not have possibly neglected the foreign trade sector, as their infant industries necessitated protection and Turkey's international monetary position demanded strict control of exports and imports. Accordingly, they embarked upon the application of all sorts of restrictions such as high tariffs, clearing and compensation agreements, embargoes, etc.

This Chapter is again divided into two main sections. In Section (A) an attempt will be made to give a summary account of the Statist policy in foreign trade, where we shall try to show the forms of restrictions which were put in force. Section (B) will be devoted to the analysis of some of the major economic effects resulting from the application of such a policy.

A. FOREIGN TRADE AND STATE POLICY

1. The Declared Statist Policy in Foreign Trade

A study of the People's Party 1935 and 1947 Programs reveal certain interesting facts which help us understand the spirit and logic behind the enforced policy.

Article 12 of the 1935 Program (Appendix III-A) makes it clear that Turkey was to trade with those countries which were willing to buy its own products ~~only~~. Article 17 emphasizes the importance of exports and promises State encouragement and help to those who will contribute to that end. Special mention is made of the need for standardization and grading of the exportable Turkish products to insure stability in their sales. This, as we saw in Chapter IV, was the purpose behind organizing the Sales and Export Cooperatives. However, with due recognition of the State's contribution in this field, and with the exception of a few products such as figs, raisins, and tobacco, the results have been disappointing. The same Article sees the need for State aid in foreign trade which thus opens the way for direct State interference. The reference to the need for a State organization to furnish Turkish exporters with information was carried through the "Turkofis" which was ~~est~~ established for that purpose. This Office was later abolished and its obligations transferred to the Ministry of Commerce. Article 22 refers to State recognition of the importance of Tourism. However, the deliberate restrictions imposed upon the movements of foreigners in Turkey since 1923 is the exact opposite of the declared policy.

The 1947 Program (Appendix III-B) shows no change in State policy. But, beginning with 1946, as we shall see in the following sections, restrictions on imports and exports have shown a tendency for a relative relaxation.

2. Turkey's Commercial Policy and Foreign Trade

According to the commercial treaty of 1923 (a part of the Lausanne Agreement), the Turkish Government undertook to apply the 1916 tariff after having made the necessary changes in compliance with the Laws which were promulgated during the War of Independence (1921-1923). The Lausanne Commercial Treaty was to remain in force until 1929.

The law of 1929 subjected all imports to a new tariff. Items which did not appear on Government lists were to be taxed at 40 per cent ad valorem. However, the tariff, taken as a whole, was mainly specific. The Government declared its freedom to change rates without notice and it immediately entered into short-period commercial treaties with other countries. The Turkish Government justified the application of the high and, in some cases, prohibitive tariff rates on two counts: the first was the attempt to promote industrial development. The second was to hold the drain on foreign exchange resulting from the trade deficits incurred since 1923. The following table will help to illustrate the second point.

TABLE XXVI
TURKEY'S FOREIGN TRADE
(1923-1929)

Year	Exports		Imports		Balance	% of Exports to Imports
	TL mill.	1000 tons	TL mill.	1000 Tons		
1923	85	368	145	498	-60	58.8
1924	159	634	194	705	-35	80.1
1925	192	668	242	734	-50	80.0
1926	186	771	235	629	-19	80.3
1927	158	698	211	644	-53	74.3
1928	174	627	224	750	-50	77.6
1929	155	670	256	996	-101	60.4

Source: Dr. Refii Sukru Suvla, Tatbiki İktisat, İkinci Kitap (Istanbul, 1948), p. 171.

It will be noticed that the value of imports in 1929 reached the high figure of TL 256 million, showing a deficit of TL 101 million. The reason for this increase is attributed to the great desire on the part of the Turkish importers to accumulate their stocks before the 1929 high tariff was put in operation.

In the years following 1929, we notice an absolute fall in foreign trade, which continued until the end of 1933. This can be seen from the following table.

TABLE XXVII
TURKEY'S FOREIGN TRADE
(1930-1946)

Year	Exports		Imports		Balance TL mill.	% of Exports to Imports
	TL mill.	1000 Tons	TL mill.	1000 Tons		
1930	151	777	147	616	4	102.6
1931	127	883	127	497	—	100.0
1932	101	1,078	86	417	15	111
1933	96	1,251	75	396	21	126
1934	92	1,638	87	475	5	106
1935	96	1,480	89	528	7	108
1936	118	1,377	93	538	25	127
1937	138	1,367	114	614	24	120
1938	145	1,447	150	814	-5	97
1939	127	1,135	118	735	9	107
1940	111	659	69	357	42	161
1941	123	429	75	310	48	164
1942	165	355	148	314	17	112
1943	257	333	203	391	54	126.5
1944	233	346	165	332	68	141
1945	219	310	126	325	93	174
1946	432	905	224	103	208	192

Notes: The last column was prepared by this writer.

Source: Dr. Refii Sukru Suvla, *Tabiki Iktisat, Ikinci Kitap* (Istanbul, 1948), pp. 172-73. The figures for 1946 are found on page 190 of the same book.

The diminution of the total value ^{of exports} up to 1934 was due to the serious effect of the Great Depression on the prices of the Turkish exports which were almost solely primary products. The fall in the total value of imports up to 1933 was due to both the protectionist measures taken by the Turkish Government and the existence of stocks in Turkey.

In 1930 the Turkish Government adopted the principle of keeping the balance of trade in balance. In 1931 a law was passed through which both the quantity and the quality of imported commodities were put under strict control. Accordingly, the "Kontenjan" system was introduced. This was the policy of reducing the demand for foreign exchange. In addition to keeping imports and exports in balance, measures were taken to reduce service payments to the basically essential and prevent the outflow of capital. Thus, Turkey entered into "Clearing Agreements" with other countries. These were of course "Payments agreements" the success of which depended on the degree of complementarity which existed between Turkey and the other countries. ~~These were of course~~ In such agreements the rate of exchange was usually fixed. The Turco-German agreement was of this type. However, sometimes the rate of exchange was free, in the sense that the rate was established in a third market. For example, the Turco-Italian Clearing agreement was of this type where the rate of exchange was established in the London money market.

The reasons as to why Turkey had to adopt such a commercial policy were numerous:

a) Turkey's Balance of Trade between 1923 and 1929 showed a continuous deficit (See Table XXVI above). This the Turkish Government considered to be disastrous and measures were taken to cover the balance. The People's Party Program (Appendix III-A, Article 12) clearly expresses the determination of the Government to do something about it. Likewise, the deficit in the invisible items for the same years was apparent. For example, in 1926, the passive items exceeded the active items by TL 44,917,000 (1). Here, the deficit in the visible items is also included.

b) Without reaching a balance, it would have been extremely difficult to get fruitful results from the 1930 attempt at stabilizing the value of the Turkish Lira.

c) In conformity with the industrial program, the Turkish Government found it necessary to forbid the importation of certain items the supply of which could be provided from the home markets.

d) The prices of exported commodities, relative to the prices of imported commodities, had fallen considerably. Actually, to be able to get, roughly, one half the value of pre-Depression exports, the volume of post-Depression exports had to be more than doubled. For example, the volume of exported products in 1928 was 627,000 tons as compared to the 1,480,000 tons in 1935; whereas, the total value of exports in 1935 was TL 96 million as compared to the TL 174 million in 1928 (See Tables XXVI and XXVII above). In other words, while the volume of exports in 1935 had increased by more than twice the 1928 level, its value had dropped by about 45 per cent.

e) The World Economic Conference which was held in London in 1933 adjourned with no positive results. Measures of tariff and exchange controls adopted by other countries brought about further drop in the prices of the Turkish products. Accordingly, Turkey had to resort to restrictions.

Under the "Kontenjan" system, as expressed in Article 12 of the People's Party Program, imports were permitted on condition that the exporting country bought Turkish products. To be able to do that, Turkey had to enter into "Clearing" agreements with other countries. These were nothing but barter arrangements which relieved the countries concerned from foreign exchange difficulties. The Turkish Government was conscious of the fact that Clearing Agreements with one or two countries alone would put the foreign countries, with which such arrangements were reached, in monopolistic position and give them a chance to dictate prices. To overcome this difficulty, Turkey entered into as many Clearing Agreements as was possible. However, the disadvantages of such a system are obvious. It not only forces international trade out of normal channels, but it also frequently results in the "blocking" of the accounts of one or more countries; thus necessitating other arrangements such as "Compensation Agreements(*)", with their adverse consequences on foreign trade and export prices. It is interesting to note that, in spite of Turkey's effort to disperse its agreements among many countries, the 1936-38 averages show that Germany was able to control 43.1 per cent of Turkey's total exports in value, and 44.9 per cent of Turkey's total imports in value(2). In 1935, 83 per cent of Turkey's total imports and 84 per cent of its

exports were carried through Clearing Agreements(3).

In 1937, the Turkish Government, having realized the numerous difficulties and disadvantages of the "Kontenjan" system, introduced a new system which came to be known as the "General Import Policy." According to this policy, the "Kontenjan" system was, in principle, cancelled. There was no more the question of making the importation of certain commodities illegal. Instead, the Government issued Lists each of which contained specifications in regard to the conditions which were to be met before commodities were imported. However, luxury goods were subjected to prohibitive taxes. Also, the Government retained the right to prohibit the importation of any products, if and when it found it necessary. The new regime was directed towards the establishment of balanced trade accounts and followed the principle of "buying the products of those who buy ours."

Beginning with the Second World War, due to the increase in the demand for the Turkish products, followed with an increase in import difficulties, a shift took place in the Turkish foreign trade policy. This was an attempt to restrict exports and expand imports. Thus, on May 31, 1941 (4), the Turkish Government took the necessary measures for the unification of the export and import regulations through which the 1937-38 "General Import Policy" was brought to an end. In this new policy, an attempt was made to be more liberal in extending foreign exchange and improving the "Clearing" and "Compensation" agreements. Also, measures were taken since 1939 to avoid the depletion of the stocks

of Turkey's basic necessities. This was done by subjecting the exportation of many commodities to licensing. These measures took a firmer shape in 1942 and the limited quantities of commodities which were permitted to be exported were handled by the Unions of Exporters and were distributed among export merchants. Likewise, Unions of Importers were established which, in the light of the need of the country, the availability of foreign exchange, and the then existing trade agreements, were to handle Turkey's imports. Their two main functions were to provide Turkey with the necessary products and try to keep the prices of imported commodities at a low level. Also, to meet the need of both the State and the market, a "Commercial Office" was established during the Second World War, with State capital. However, in 1946, due to the increase in Turkey's foreign exchange, both the Unions of Importers and the Commercial Office lost their raison d'être and were liquidated.

During the Second World War, the ways and means of payments, in foreign trade, underwent numerous changes. While at the beginning of the War the Clearing system occupied an important place in Turkey's foreign trade, it lost its position as a result of the Turkish Trade moving towards the Anglo-American states(5), and in 1944, with the break with Germany, this system completely collapsed. After the War, Clearing agreements were reached with Switzerland and Czechoslovakia which expired in one year and were never renewed.

Turkey's foreign trade policy ~~in~~ in 1947 can be summarized in the following points:

a) Commodities registered on the Government's "Free Import List" could be imported with free foreign exchange. The size of the list was to expand or contract according to the country's foreign exchange reserves.

b) The export of certain materials which were considered to be indispensable for local consumption was strictly forbidden. A second group of commodities was subjected to export licenses. With the exception of these two groups, all the remaining commodities were freely exportable.

c) Special Clearing agreements with some countries were permitted, provided permits were obtained from the Ministry of Commerce. Through such arrangements, it would become possible to import certain commodities which were not included in the "Free Import List".

As there still was exchange control, all foreign exchange from exports was to be sold to the Central Bank. Likewise, foreign exchange for imports was to be supplied by the Central Bank.

It is to be noted that, immediately after the 1946 devaluation, the Turkish Government, taking its force from an article in the 1929 tariff regulations, raised, in most cases, the tariff rates by 100-150 per cent. This added considerable weight to the already highly protective regime.

The change in Turkey's foreign trade policy since 1941 is too apparent to deserve any further comment. Due to the continuous

favorable balance of trade, with the exception of 1938 where there was an unfavorable balance of TL 5 million, the clearing system has been completely abandoned and the trend has been towards payments arrangements on a free exchange basis. Also, due to the fall in the importance of the Compensation ~~agreements~~ arrangements, instead of trying to keep a separate balance for each individual country, the trend has been towards the maintenance of a general favorable balance of trade(6).

However, before we conclude our discussion on Turkey's foreign trade, mention should be made of the fact that Turkey has been experiencing an unfavorable balance of trade since 1947. The following table will illustrate our point.

TABLE XXVIII
TURKEY'S FOREIGN TRADE
(1946-1950)

Year	Export		Imports		Balance TL. mill.
	TL. mill.	1000 Tons	TL. mill.	1000 Tons	
1946	132	905	224	403	208
1947	625	1,173	685	622	-60
1948	551	880	770	881	-219
1949	694	997	813	1,221	-119
1950	738	985	800	1,488	-62

Source: Office Central de Statistique, Statistique Annuelle du Commerce Extérieur, Ankara, 1950, p. XXII, Table I.

It will be noticed that while in 1946 Turkey had a favorable balance of TL 208 million, in 1947, the situation was completely reversed, reaching a maximum deficit of TL 219 million in 1948, with a tendency towards a balance in 1950. This major change is of course due to the relatively

liberal multilateral foreign trade policy Turkey has been following since 1947. Since then the deficit has been covered from accumulated foreign exchange reserves and the U.S. grants and loans. However, this situation has created anxiety among the Turkish authorities and measures have been taken to overcome the ~~aid~~ difficulty. Since 1948, Turkey's gold and foreign exchange holdings have remained stabilized at approximately \$200 million.

3. Turkey's Foreign Exchange Policy and Balance of Payments

a) Foreign Exchange Policy

Beginning with 1914, Turkey(7) had accepted the paper currency regime. In 1923, when the Lausanne Agreement was signed, foreign exchange was bought and sold on the free market. Although the export of gold was prohibited, the fact that gold could easily be converted into foreign exchange, rendered such a regulation ineffective. Thus, the value of the Turkish lira showed a constant depreciation, with adverse effects on the balance of payments.

In an attempt to prevent the depreciation in the Turkish currency and reduce Turkey's increasing indebtedness to foreign countries, measures were taken to balance the balance of trade, as discussed above. However, due to the bad crop years of 1927 and 1928, the increase in imports in 1929, and the initial effects of the Great Depression, Turkey could not obtain the desired end. In 1930 a law^s was passed according to which the flow of fo^xign exchange was put under strict control, subjecting the sale of all inflow of foreign exchange to the Central Bank and its outflow to special permits. Exchange control thus firmly

established, measures were taken to eliminate the discrepancy in the balance of payments. This was done, as explained above, through balanced trade accounts, clearing agreements, and compensation arrangements. Likewise, the export of capital was strictly prohibited and foreign service payments were subjected to Government permits(8).

According to the Consortium decision of 1930, the value of the Sterling was stabilized at TL 10.30. This continued until the Sterling devaluation of 1931, at which time the value of the Turkish lira was stabilized with the French franc. But, with France moving away from the gold standard in 1936, the Turkish lira was tied to the Dollar and the Sterling and was stabilized at 524 piasters for the Sterling and 132 piasters for the Dollar.

During the Second World War and as a result of the serious inflation in Turkey, the value of the Turkish lira depreciated considerably. Accordingly, the Central Bank began to pay Turkish exporters a premium of 40 per cent on their foreign currency and received a premium of 48 per cent from importers.

On September 7, 1946 the Turkish Government, hoping to close the gap between the Turkish and the International market prices, and in preparation to enter the International Monetary Fund, devalued its currency by 50 per cent(9). This made it possible to establish the value of the Dollar, Sterling and the Swiss Franc at TL 2.80, TL. 11.28, and 67.2 piasters respectively. However, the benefits derived from the devaluation are questionable and have been hotly debated by two opposing camps. The chief beneficiaries seem to have been the Treasury and those merchants who bought their stocks immediately before the devaluation(10).

The Turkish foreign exchange policy as of 1946 can be summarized, broadly, in the following points(11):

- i) Turkey's foreign payments are, in principle, made through free foreign exchange.
- ii) Only banks are authorized to buy and sell foreign exchange at rates established by the Central Bank.
- iii) It is imperative that all foreign exchange derived from exported products be sold to the banks. Payments for imports in foreign currencies require permits from the Ministry of Commerce. Foreign currencies needed for other purposes than imports require permits from the Ministry of Finance.
- iv) Trade through compensation agreements require permits from the Ministry of Commerce.

b) Balance of Payments

Due to the lack of data, it is not possible to give an accurate picture of Turkey's balance of payments position for the years under study. Although there have been some estimates made for a few years, the recorded figures are inconclusive and present serious and unexplained discrepancies. However, an attempt will be made to give a rough idea of Turkey's international financial position for the years 1947-1949, making use of the figures given in the IBRD Report on Turkey.

TABLE XXIX

TURKEY'S BALANCE OF PAYMENTS, 1947
to 1949 (millions of Liras)

	<u>1947</u>	<u>1948</u>	<u>1949</u>
<u>Goods and Services:</u>			
Exports (f.o.b.)	656.7	551.0	693
Imports (f.o.b.)	-637.1	-800.5	-872
Trade Balance	<u>19.6</u>	<u>-329.5</u>	<u>-179</u>
Transportation and Insurance	-55.3	-88.6	-93
Other	<u>-25.9</u>	<u>-17.9</u>	<u>-45</u>
Total	-61.6	-436.0	-317
<u>Other non-compensatory Transactions:</u>			
Private donations	2.1	18.2	8
Private Capital movements	3.8	-.6	-
Turkish Aid	2.8	202.7	157
Compensation for Iraqi oil fields	2.5	2.4	-
Official amortisation	-21.3*	-45.8	-53
Gold Subscriptions: IMF, IBRD	<u>-32.5</u>	<u>-</u>	<u>-</u>
Total	-112.6	176.9	112
Errors and omissions	27.0	50.8	-1
Surplus or deficit(-)	-147.2	-208.3	-206
<u>Compensatory Official Financing:</u>			
Official Grants	-	-	124
U.S. Credits	28.0	36.7)	
U.K. Credits	-	18.4)	38
Czechoslovakian Credit	-	4.3)	
IMF	14.0	-	-
Payments Agreements	-102.5	171.0	-35
Other short-term balances	25.1	-43.9	56
Gold	<u>182.6</u>	<u>21.8</u>	<u>23</u>
Total	147.2	208.3	206

(*) Includes interest on Foreign debts.

Source: IBRD, The Economy of Turkey, Washington, D.C., 1951, p. 247.

Prior to 1947, Turkey's international financial position was relatively strong. All through the years 1940-1946 (See Table XXVII above) Turkey's Balance of Trade showed an annual export surplus averaging TL 76 million. As a result of this favorable trade, there was an accumulation of gold and foreign exchange assets totaling \$307 million at the end of 1946. But beginning with 1947, the trend was reversed and in 1948 Turkey's trade balance recorded a deficit of TL 219 million. This was mainly due to the fall in export prices and the rise in Turkish imports. The latter was caused partly by Turkey's relatively liberal import policy and partly by the increase in money supply. The years 1949 and 1950 show a tendency towards the closing of the gap.

It should also be mentioned that between 1946 and 1950 Turkey received \$241 million in loans and grants from the U.S. Government and \$25.4 million from the International Bank and has utilized \$73 million of its gold and foreign exchange. The extent to which Turkey in the future can sustain a trade deficit and tolerate the pressure on its reserves will depend upon its future productivity, the increase in its exports, and the prospects of the continuation of U.S. grants and loans, and foreign investment in Turkey(12).

4. The Composition of Turkey's Foreign Trade:

A study of Turkey's principal commodities exported over a period of more than a decade reveals that there has been no significant change in the composition of its exports. Turkey's exports can be divided into foodstuffs, raw materials and semi-manufactures, and manufactures. Among total exports, tobacco, cotton, nuts, and raisins occupy the most important

position. The tables below will help us see the picture clearly.

TABLE XXX
TURKEY'S SELECTED EXPORTS BY VOLUME
1937-1938 and 1947-1950
(thousand of tons)¹

	<u>1937-1938²</u>		<u>1947</u>		<u>1948</u>		<u>1949</u>		<u>1950</u>	
	<u>Amount</u>	<u>Index</u>	<u>Am.</u>	<u>Ind.</u>	<u>Am.</u>	<u>Ind.</u>	<u>Am.</u>	<u>Ind.</u>	<u>Am.</u>	<u>Ind.</u>
All Exports	*	100.0	*	94.9	*	99.5	*	128.4	*	124.7
Tobacco	40.9	100.0	42.3	103.5	49.2	120.3	77.6	189.9	50.8	124.2
Cotton	18.8	100.0	0.1	0.0	16.0	85.1	31.6	168.0	77.9	414.4
Raisins	55.9	100.0	32.1	57.4	40.1	71.8	63.9	114.2	79.9	142.9
Hazelnuts	24.1	100.0	23.2	96.1	20.9	86.5	31.5	130.7	27.6	114.5
Livestock	462.1	100.0	577.8	125.1	305.0	66.0	589.7	127.6	559.0	121.0
Chrome	203.3	100.0	183.8	90.4	309.6	152.3	353.2	173.8	353.6	173.9
Hide & Skins	4.5	100.0	4.3	95.2	6.2	137.5	4.4	97.0	6.4	142.2
Valerian & Extract	40.1	100.0	27.2	67.8	33.4	83.1	29.8	74.4	n.a.	n.a.

(1) except livestock, which are in thousands of head.

(2) Annual average.

(*) Total volume cannot be determined since separate commodities measured in different units.

Source: IBRD, op. cit., p. 231.

It will be noticed that, with the exception of cotton and chrome, the volume indices of exports in 1950 show a modest increase over those of the 1937-1938 averages. According to the IBRD report about one third of Turkey's exports in 1950 were food-stuffs; one half to two thirds raw materials and semi-manufactures; and less than six per cent manufactures(13).

A table of Turkey's exports by value is given below.

TABLE XXII

TURKEY'S SELECTED EXPORTS BY VALUE,
1937 to 1938 and 1947 to 1950
(Millions of Liras)

	1937-1938*		1947		1948		1949		1950	
	Value	Index	Value	Index	Value	Ind.	Val.	Ind.	Val.	Ind.
All Exports	141.5	100.0	625.2	441.8	551.0	389.4	693.9	490.4	737.6	521.3
Tobacco	41.6	100.0	179.5	431.5	173.0	415.9	259.0	622.6	170.8	410.6
Cotton	7.9	100.0	0.0	0.0	33.7	426.6	75.8	959.6	195.9	2479.7
Raisins	10.1	100.0	27.1	268.3	28.6	283.2	46.3	458.4	58.2	576.2
Hazelnuts	11.6	100.0	42.9	369.8	30.9	266.4	43.6	375.9	52.2	450.0
Livestock	3.0	100.0	26.5	883.3	16.6	553.3	32.5	1083.3	24.0	800.0
Chrome	4.5	100.0	14.1	313.3	25.8	573.3	30.3	673.3	30.0	666.7
Hides & Skins	3.9	100.0	14.6	374.4	18.4	471.8	12.6	323.1	15.5	397.4
Valonia & Extract	2.5	100.0	7.4	296.0	9.5	380.0	12.5	500.0	n.a.	n.a.

(*) Annual average.

Source: IIRD, op. cit., p. 232.

A study of the indices in the above table shows over 500 per cent increase in value of exports between 1937/38 and 1950. This increase of course does not mean much as it is a result of the serious inflationary prices in Turkey. In other words, it is more a reflection of the depreciated value of the Turkish lira than increased exports.

As to imports, the changes in their composition are more apparent.

TABLE XXXII

TURKEY'S SELECTED IMPORTS BY VOLUME,
1937 to 1938 and 1947 to 1950
(Thousands of tons)¹

	1937-1938 ²		1947		1948		1949		1950	
	Amount	Index	Amount	Index	Amount	Index	Amount	Index	Amount	Index
All Imp.	*	100.0	*	114.8	*	123.5	*	110.0	*	164.2
Machinery	26.4	100.0	28.1	106.2	43.5	164.5	58.2	220.3	72.6	275.0
Iron & Steel	89.0	100.0	106.7	56.5	100.2	53.0	114.0	60.3	215.9	114.2
Petroleum										
Product	213.4	100.0	262.7	123.1	330.7	155.0	478.8	224.4	506.7	237.4
Cotton Tex.	12.0	100.0	10.6	88.2	7.3	61.0	5.8	48.1	5.9	49.2
Wool &										
Wool Yarn	1.7	100.0	6.5	388.8	5.4	320.2	5.8	345.8	3.3	194.1
Timber &										
Product	31.7	100.0	23.4	74.0	104.2	328.4	182.5	575.1	128.4	405.0
Vehicles	7.9	100.0	32.8	413.8	15.4	195.1	12.1	153.1	17.7	224.1

(1) Except vehicles, which are in thousands of units.

(2) Annual average.

(*) Total volume cannot be determined since separate commodities measured in different units.

Source: IIRD, op. cit., p. 235.

The greater part of Turkey's imports has been composed of machines and other manufactured products. With an industrialisation program on hand, this was inevitable. Also, due to the recent road development program, imports of both petroleum products and vehicles have increased considerably. The indices in Table XXXII above show an increase of 237 per cent for the former and 224 per cent for the latter between 1937/38 and 1950. Likewise, interesting changes in imports are those concerning the cotton and wool products. The 1950 index for cotton textiles is 49 as compared to the 1937/38 average. This is of course due to the increase in the local production of cotton textiles (especially by the Sumerbank). In the case of wool and woollen yarn, although the 1950 index shows an increase of 194 per

cent over the 1937/38 average, the volume of imports of these products show a constant decline since 1947.

Table XXXIII below show Turkey's selected imports by value.

TABLE XXXIII

TURKEY'S SELECTED IMPORTS BY VALUE,
1937 to 1938 and 1947 to 1950
(Millions of liras, c.i.f.)

	1937-1938*		1947		1948		1949		1950	
	Value	Index	Value	Index	Value	Index	Value	Ind.	Val.	Index
All Imports	132.1	100.0	685.0	518.9	770.1	583.3	812.6	615.9	799.9	605.5
Machines	19.1	100.0	72.3	378.5	136.2	713.1	174.0	911.0	184.9	968.1
Iron & Steel	23.3	100.0	70.3	301.7	75.0	321.9	87.2	374.2	97.8	419.7
Petroleum P.	5.8	100.0	29.4	506.9	43.8	755.2	62.8	1082.8	58.7	1012.1
Cotton Text.	17.1	100.0	118.2	691.2	80.0	467.8	61.8	361.4	49.4	288.9
Wool & Woollen										
Yarn	4.5	100.0	34.2	760.0	44.2	982.2	49.8	1106.7	27.1	602.2
Timber & P.	1.8	100.0	4.7	261.1	21.2	1177.8	16.3	2016.7	18.7	1038.9
Vehicles	5.0	100.0	54.5	1090.0	42.2	824.0	37.8	756.0	44.0	880.0

(*) Annual average

Source: IERD, op. cit., p. 236.

The 1950 figures show 605.5 per cent of increase in value of total imports over the 1937/38 average. This of course is a result of the relatively relaxed import regulations. The indices for petroleum products, timber, ^evehicles and machines show an enormous increase. That is why, as we discussed above, Turkey has been experiencing a serious deficit in its balance of trade causing strain on its international financial position. But we also mentioned the fact that measures were being taken to relieve the Turkish economy from these difficulties.

B. THE STATISTIC POLICY AND ITS EFFECTS ON FOREIGN TRADE

In Section (A) above an attempt was made to give a summary account of Turkey's commercial and foreign trade policies since 1923. We there traced the origin and followed the developments which took place in such policies over a period of less than three decades. We readily concede that the Statist policies showed a reasonable degree of flexibility; accomodating themselves, in as much as was possible, to local and world economic changes. However, all in all, at least up to 1947, the general trend can be characterized by its high degree of protectionism and restrictions.

Now, two important questions need to be answered: a) Was it absolutely necessary for Turkey to follow such restrictionist policies? In other words, was there an alternative conducive to better results. b) What have been the advantages and disadvantages of the applied regime in Turkey's foreign trade sector?

It is not possible to give a clear-cut answer to the first question. But, judging from the economic difficulties which Turkey was experiencing during the late twenties, it is not possible for us to conceive of a better alternative which Turkey could have profitably made use of at that time. Turkey came out of the First World War and the War of Independence in complete ruins. Its balance of trade showed, up to 1929, a serious deficit. Besides, according to the Lausanne Agreement, Turkey was forced to assume a considerable part of the Ottoman debt. As though this was not enough, she had, in addition, to carry the indirect weight of the Depression, with rapidly falling prices of its exportable products. On top of that, we find

the general tendency in the World, in the late thirties, for protectionism and foreign exchange regimentations. All these were, we believe, good enough reasons for the Turkish authorities to introduce regulations through which it was hoped to better Turkey's international financial position. That the Turkish Government succeeded in reversing the trend can be easily seen from the favorable balance of trade from 1930 to 1946, excepting 1938, and the considerable amount of gold and foreign exchange Turkey was able to accumulate over this period. Also, mention should be made of Turkey's industrialization program which demanded a high degree of protection and foreign exchange control.

Actually, the period between 1939 and 1945 needs a special treatment. Although Turkey did not actively participate in World War II, the need for mobilization and the huge amount of military expenditures put a serious strain on the economy and its resources. But the increased demand for the Turkish products and the difficulties of imports dictated a shift in the foreign trade policy, as was discussed above. The regulations introduced in the war period were a result of the forces incumbent upon this country which tried to manage a war economy.

Our first major criticism is the following: It is true that restrictions in the foreign trade made it possible for Turkey to maintain a relatively safe position in international finance. This may have been necessary and inevitable for a country in Turkey's position; at least in the short-run. But, the long-run view ought to have been the increase in production in both the industrial and agricultural sectors which would have eventually increased exports

and led to an increase in imports. This argument becomes much more forceful when we realize that Turkey's balance of trade covers the greater part of its balance of payments. It will be a long time before Turkey can develop its banking, insurance, and shipping facilities to constitute an important item in its balance of payments. Nor can we, at present, expect large-scale foreign investment in Turkey. But, when we cast a look at Turkey's industrial and agricultural development over a period of thirty years, we find no appreciable increase in productivity. For this the Statists have to bear the greater share of the responsibility and the failure.

In answer to the second question, we have the following to say. The benefits derived from the complex of bilateral trade and payments agreements and the compensation arrangements are doubtful. Turkey was able to dispose of its ~~sur~~ export surpluses at high prices, the benefit of which mostly went to the exporters. But, we should also remember that, as a result of such arrangements, Turkey had to pay high prices for its imports. Here we have mainly the consumers suffering. In addition, these arrangements and ~~the~~ high tariffs, in the absence of a wise developmental economic policy, leads to the protection of inefficient methods of production and a waste of the scarce and badly needed investment resources. Also, such bilateral agreements have, on certain occasions, forced Turkey to import commodities which were not domestically needed, having depended on the surplus available to the trading partner. Lastly, we should mention the fact that much emphasis was laid on "short-term most advantageous sales in bulk lot."

This has prevented the development of stable markets for the Turkish commodities, especially with complementary economies. The Government-sponsored agricultural sales in ~~in~~ bulk-lots accentuated this undesirable situation. The importance of this point was fully realized after the Second World War when Turkey had to give an end to its bilateral arrangements and adopt the multilateral trade policy.

Before we close our discussion on Turkey's foreign trade, it will be instructive to cast a look at Turkey's terms of trade, for a number of years, and follow the changes occurring there.

TABLE XXXIV

TURKEY'S EXPORT AND IMPORT INDICES AND
THE TERMS OF TRADE, 1937-1939 and 1945-
1950
(1937 equals 100)

Year	Export Index	Import Index	Terms of Trade(1)
			$\frac{\text{Export Index}}{\text{Import Index}} \times 100$
1937	100	100	100
1938	91	102	89
1939	88	98	90
1945	263	225	112
1946	350	270	95
1947	419	493	85
1948	375	477	79
1949	374	447	84
1950	383	368	104

Note: the index numbers of unit value reflect changes in the average prices of commodities exported and imported.

(1) The index numbers in this column are calculated by this writer.

Source: Statistical Office of the United Nations, Monthly Bulletin of Statistics, August 1951, Vol. V, No. 8, p. 113.

The Table above is basically defective due to the lack of proper weighting in the derivation of the value of the units shown as indices in columns two and three. Accordingly, the results derived are necessarily inconclusive. But, with this limitation in mind, we believe that the last column gives a rough picture of the true case.

It will be observed that, up to the end of 1939, the terms of trade were unfavorable for Turkey. Due to the lack of data, we do not know the exact terms for the years 1940-1944. However, it is rather safe to say that the great increase in the demand for the Turkish products during the Second World War must have resulted in favorable terms. Following 1945, the picture is reversed and the unfavorable terms of trade continue until the end of 1949. This was the result of Turkey's greater demand for imports relative to its exports. The favorable terms of trade for 1950 are a reflection of Turkey's new measures to reduce the deficit in its balance of trade. Thus, this is an additional proof which shows that we have no reason to believe that Turkey's foreign trade policies have been conducive to much beneficial results.

FOOTNOTES TO CHAPTER V

(1) Haldun Derin, op. cit., p. 114.

(*) The IIRD Report on Turkey defines Compensation Trading as "a barter-like transaction whereby an exporter uses the foreign exchange proceeds of his sale to import a product previously agreed upon. He may himself import the commodity or sell his right to do so to a third party." P. 237 (footnote).

(2) E. R. Lingeman, op. cit., pp. 171 and 172.

(3) Haldun Derin, op. cit., p. 117. There is no reference as to whether the percentages are in value or volume.

(4) According to decree No. 2/15843.

(5) In 1945, imports from England and the U.S. together made up 40.9 per cent of Turkey's total imports in value; and exports to England and the U.S. 58.7 per cent of Turkey's total exports in value.

(6) For a more detailed discussion on Turkey's Commercial and Foreign Trade Policies: Dr. Refii Sukru Suvla, Tatbiki Iktisat, Ikinci Kitap, pp. 152-190.

(7) Technically speaking, reference should be made to the Ottoman Empire, as modern Turkey started its rule on October 29, 1923.

(8) For a detailed discussion of the relevant decrees: Dr. Refii Sukru Suvla, Tatbiki Iktisat, Ikinci Kitap, pp. 182-86.

(9) The premiums mentioned above included. If the premiums are excluded, the devaluation, as compared to the basic (official) rates, becomes 117 per cent.

(10) For a concise but a comprehensive discussion of the effects of Turkey's 1946 devaluation: E. R. Lingeman, op. cit., pp. 32-35.

(11) Dr. Refii Sukru Suvla, Tatbiki Iktisat, Ikinci Kitap, pp. 186-87.

(12) For a short discussion of Turkey's Balance of Payments problems: IIRD Report on Turkey, Washington, D.C., 1951, pp. 246-48.

(13). Ibid., p. 229.

CHAPTER VI

THE FINANCIAL POLICY

INTRODUCTION

An attempt was made in the preceding three chapters to give a short account of Turkey's Economic policies and show their economic effects in the different sectors of the Turkish economy. In this chapter a similar approach is adopted. Section (A) is devoted to a discussion of the financial policy as observed in the fiscal, taxation, monetary and banking fields. In Section (B), we shall point out and shortly analyse the economic effects resulting from the adoption of such policies.

A. FINANCIAL ORGANIZATION AND POLICY

1. Etatism and Financial Policy

It has been our belief that the only way we can fully understand the reasons behind the adoption of such economic policies in Turkey is by referring to the People's Party principles from which such policies and practices have emanated. This procedure has been used in the preceding chapters. We now proceed to compare the declared Economic principles concerning Turkey's financial organization and discuss the changes which took place over a period of twelve years.

Article 36 of the 1935 Program (Appendix IV-A) expresses the view that the Party considered the balancing of the budget as a basic

principle of finance. However, as will be discussed below, the Turkish Government has not remained faithful to this principle. Article 37 declares the imposition of taxes on an indirect and net revenue basis. It will be seen that the greater part of tax revenue has come from 'indirect' impositions and has fallen inequitably on the fixed-income groups.

A study of the 1947 Program (Appendix IV-B) reveals several interesting developments. Paragraph two of Article 75 shows the necessity of preparing the budget in the light of the changes in the national income. Article 76 finds it essential that the purchasing power of the national currency be stabilized. This of course is a result of Turkey's experience of the serious inflation of over a decade of duration and a realization of the adverse economic consequences of such a condition. Articles 77 and 78 introduce the concept of 'social justice', the need for a progressive tax, and a realization of the heavy burden of the indirect taxes on the low-income groups. Article 81 is especially significant. It declares the need for internal and external borrowing. As we shall discuss below, the Turkish Government has seriously indulged in deficit financing, about 90 per cent of which has come from Central Bank credit. As to the recognition of the need for foreign borrowing, it represents a new outlook. Although prior to 1947 Turkey had accepted foreign loans, the policy was to limit them to the very minimum. However, with Turkey's continuous unfavorable balance of trade since 1947, the serious fall in its gold and foreign exchange holdings, the heavy military expenses, and the developmental programs on hand, the Turkish authorities were convinced that they could

not possibly finance all their projects from the economy's resources. Article 82 is a recognition of Turkey's bureaucratic regime, with its almost inevitable consequence of redundant Government employees and inefficiency. Lastly, article 83 shows the need for the continuation of the protection of the national industries. But, here ^a again, we find a new approach. It is realized that the protection of inefficient industries causes great suffering to the consumers, through high prices. Accordingly, mention is made of the need for rationalization in industries and adjustments of tariff rates in conformity with international prices.

2. Public Finance and Fiscal Policy

a) The Budget

Due to the lack of a consolidated budget in Turkey, it is not possible to make a proper evaluation of total State expenditures. In addition to the General Budget, there are over a dozen of annexed budgets of the Monopolies, State Enterprises, Railways, Post Office, and Municipal budgets, the figures of which do not appear in the General Budget.

According to Prof. Neumark, Turkey's total state expenditures for the years 1938-1945 were as follows:

TABLE XXXV
TOTAL STATE EXPENDITURE

Year	Civil Expenditure		Military Expenditure		Total Expenditure	
	Million TL	% of Total	Mill. TL	% of Total	Mill. TL	% of T.
1938-39	219.7	70.2	93.5	29.8	313.2	100
1939-40	231.7	57.9	169.1	42.1	400.8	128
1940-41	255.1	46.8	290.5	53.2	545.6	174
1941-42	259.3	44.6	322.6	55.4	581.9	186
1942-43	416.6	45.6	497.2	54.4	913.8	292
1943-44	488.9	47.4	542.5	52.6	1031.4	329
1944-45	529.7	48.9	554.3	51.1	1084.0	346

Source: F. Neumark, "Finances Publiques d'Après-guerre en Turquie,"
Revue de la Faculté des Sciences Economiques de L'Université
d'Istanbul, October 1946 - July 1947, No. 1-4, p. 96.

It will be noticed that total expenditure in 1945 increased by 3.5 times that of the pre-war level. But, while civil expenditure in 1945 rose 2.4 times the 1938 level, military expenditure increased by 5.93 times the pre-war level. Also, military expenditures, as compared to total expenditures, began to decrease after 1942, while civil expenditures increased after the same year.

However, the military expenditures recorded in the above table do not present the true picture. In addition to the Anglo-American aid, the military budget received other extraordinary revenue such as the Capital Levy of 1943 which is estimated to have brought TL 320 million, all of which seems to have been spent for military purposes. Thus, the 1945 military expenditures figure goes up to the round figure of TL 1,000 million.

Now, let us take a look at the revenue side.

TABLE XXXVI
STATE REVENUE

<u>Year</u>	<u>Ordinary Revenue (TL. million)</u>	<u>1938-39 equals 100</u>
1938-39	261.4	100
1939-40	262.3	100
1940-41	295.9	113
1941-42	374.6	143
1942-43	551.8	211
1943-44	701.8	268
1944-45	893.3	342

Source: F. Neumark, op. cit., p. 96.

The above table does not include "extraordinary revenue" among which are the national Defence Tax, Land Product Tax, and the Capital Levy receipts of 1943. Excluding the Capital Levy revenue, which in any case does not enter the expenditures and receipts of the balance, "extraordinary ^{dinary} revenue" added, in 1939-44, to a total of TL 265 million. This raises the 1944-45 revenue index to ⁴⁴²350. Thus, the lag of revenue from taxes behind expenditures, forced the Government into deficit spending which raised the internal debt in 1945 to over TL 1,000 million.

b) Public Debt

In the absence of consolidated budget data we have to take recourse to the increase in public debt figures in order to get an opinion about the magnitude of the budget deficit.

i. Internal debt

The increase in internal debt between the years 1939 and 1949 was

was about TL 1,000(1). According to the IERD report on Turkey, "less than 10 per cent of the total public debt has been purchased by individuals out of their savings." (2) Whereas, according to Thornburg(3), "the debt has largely been financed . . . not by loans from the Central Bank, but by the sale of bonds to the general public. Government bonds in Turkey offer the chief outlet for savings, because there is so little opportunity for private investment." In the light of our findings, which will be discussed below, we are inclined to think that Mr. Thornburg's statement is greatly misleading.

ii. Foreign Debt

In 1928 Turkey assumed 107.5 million gold lira of the Ottoman debt. This was equivalent to \$47 million, measured at the 1928 value of the dollar. In the subsequent years, this debt was partly refunded and partly adjusted down until it was finally retired in 1949. During the 1930's new debt was incurred through Turkey's purchases of foreign railroads, ports and other utilities. However, foreign debt declined to TL 188 million in 1938.

During the Second World War, through the French and British loans for defence, the debt increased considerably. The 1946 devaluation of the Turkish lira increased the burden further and servicing became onerous. However, the devaluation of the pound sterling and other currencies in 1949 partially alleviated the burden. At the end of 1950, the foreign debt stood at TL 730 million, TL 126 million of which had not yet been drawn on. In the same year, the foreign debt required an annual

interest charge of about TL 15 million and an amortization of approximately TL 37 million(4).

The figures for the total debt in 1950 are not available. But in 1946, total debt (both internal and foreign) reached the figure of TL 1885.6 million(5), or 33.5 per cent of the 1945 national income(6).

3. Monetary and Banking Policy

The active participation of the Government in Turkey's economic development has contributed greatly to the State's role in the total money flow in the economy. With the limited savings, lack of foreign funds, and the insufficient revenue from taxation, the State has used the Central Bank as an instrument to meet its growing expenditures. Notes in circulation increased from TL 194 million in 1938, to TL 939.6 million in 1947; an increase of 484 per cent (1938 equals 100). The percentage coverage in gold and foreign exchange in 1947 was 73.4 (7).

Turkey's Central Bank, in addition to its issuing the currency notes of the country, acts, along with the Agricultural Bank, as fiscal agent for the Government. It rediscounts commercial and agricultural bills, makes advances to the Treasury (direct or on Treasury-guaranteed bills), and engages in limited open market operations. Actually, the advances to the Treasury or the rediscount on Treasury-guaranteed bills have formed direct link between the deficits incurred in Government finances and the inflationary expansion of the money supply(8). The practice has been for the Central Bank to discount Treasury-guaranteed bills at a rate of

4 1/2 per cent, 3 per cent of which has been remitted to the Treasury in accordance with special arrangements. State enterprises have, in turn, lent this money to their subsidiaries at 5 per cent and 6 per cent.

To give an idea of the inflationary effect of such a discounting system, it will suffice to mention the fact that the "total outstanding bills of State enterprises increased from TL 30 million to TL 770 million" (9) between the years 1938 and 1950.

While the Central Bank has been following such a liberal policy towards State enterprises, its attitude in regard to the rediscount ~~is~~ facilities for short-term credit need /of private enterprise has been very suppressive. The practice has been 90 days on commercial papers and nine months on agricultural bills. Moreover, the rediscount ceiling, in 1949, for all commercial banks was TL 40 million, while the Central Bank was at the same time holding TL 612 million worth of Treasury-guaranteed bills of State enterprises. The prejudice against private enterprise, with its adverse consequences on economic development, is too apparent to deserve any further comment.

As to private banking operations in Turkey, it can be safely said that they have not been developed to the desired extent. After the establishment of the Republic, the Ish Bank was founded, with private capital, to help the Government finance the industrial programs. However, with the inauguration of Etatism and the creation of the Sumerbank and Etibank, private banks lost their importance. To this we should add the deliberate policy of the Turkish Government to strongly regulate and discourage foreign private banks.

A study of private banking over the past decade reveals that their activities have been almost exclusively limited to commercial finance, especially foreign trade. They have not, generally speaking, been able to attract sufficient savings deposits. The total savings deposits in Turkey's thirteen important private banks show an increase from TL 97.7 million in 1940 to TL 330.8 million in 1947; TL 245.9 million of the latter figure being composed of sight savings(10). The major reasons for the lack of enough savings are the availability of limited resources and the attractiveness of other investment outlets promising a rate of return as high as 10 to 15 per cent, as compared to the 4 to 6 per cent paid on savings deposits by banks.

State supervision of private banks in Turkey has been limited to the auditing of their accounts in order to make sure that they have bought their minimum quota of Government bonds.

Also mention should be made of the fact that the use of cheques in Turkey is very limited. This is partly due to the lack of appreciation on the part of the people of the facilities created through the use of cheques and partly due to the fact that the banks themselves have not encouraged their use on the basis that the penalties for forgery have not been heavy enough. The future attitude of the banks and the education of the people in that direction will determine the progress to be recorded in cheque-use. However, for a country like Turkey, this is definitely going to take a long time as, at present, an important percentage of the people do not, in any case, participate in the money economy.

4. Taxation

The importance of the tax structure in the allocation of resources and its impact on economic development is certainly very great. We should mention at the outset that Turkey's taxation system is based ~~on~~ neither on rational principles nor on sound economic canons. It is more a result of improvisations and lacks fiscal coherence. However, we shall attempt in the following pages to, summarily, discuss Turkey's main taxes and point out to their effects on the Turkish economy.

To get a general idea of Turkey's revenue from taxes, we have to glance at the following table.

TABLE XXXVII

TURKEY'S ESTIMATED REVENUE
FOR 1947
Total: TL 1021.2 million

	T a x a t i o n (in millions of Liras)	
	<u>Direct</u>	<u>Indirect</u>
1. Tax on earnings:		
Professions	3.0	
Industry & Commerce	100.0	
Salaries	<u>54.0</u>	157.0
2. Crisis and Stabilization taxes		
on Salaries		152.0
3. Air force aid tax on salaries		40.6
4. Taxes on livestock		27.4
5. Death Duties		1.4
6. Mining Royalties		1.4
7. Customs dues		80.2
8. Surcharge on imported goods (in connection with the devaluation)		40.0
9. Transaction tax:		
Imports		60.0
Industrial Production		118.0
Banking operations		<u>10.0</u>
10. Consumption taxes		36.1
11. Supplementary consumption tax on sugar		30.3
12. Receipts from Monopolies		54.2
13. National Defence Taxes (mainly on monopoly products)		92.5

continued . .

	<u>Direct</u>	<u>Indirect</u>
14. Stamp duties		21.0
15. Transport Dues		17.0
16. Various other fees and dues		<u>13.3</u>
Total	379.8	572.6
Ratio of direct to indirect revenue as above	39.9%	60.1%
Percentage of total revenue	37.0%	56.0%

Note: The balance of total revenue (7%) is made up mainly of revenue from Government property, lotteries and payments of arrears due on taxes which have now been abolished.

Source: E. R. Lingeman, op. cit., p. 22.

The first thing which strikes our attention in the above table is the disproportionately great percentage of indirect taxes. We also notice that the expected revenue from salaries in 1947 (a total of TL 246.6 million) formed about 65 per cent of direct taxes. According to Lingeman(11), salary-earners, in 1947, were expected to pay a minimum of 26 per cent (rising to 37 per cent and over for the higher salary group) of their income. Taxes on profits vary. Limited liability companies pay a flat rate of 39.9 per cent on their net profits. Contractors pay 3.3 per cent of the gross value of each contract. Certain merchants and professions have ^{been} paying a fixed tax on the assessed rental value of their premises. Most other forms of businesses pay a tax varying between 35 per cent and 70 per cent, depending upon the declared net profits. Income from stocks, shares and Government bonds are tax free. Tax on ^u buildings was 12 per cent of their rental value.

a) Transactions Tax

According to Thornburg(12), the Transactions and Consumption taxes formed 34.5 per cent of Turkey's estimated revenue in 1947. The Transactions tax has many inherent defects. An industrial firm which uses more than 2HP of motive power and employes more than five people is subjected to this tax on its output. This creates the difficulty of competing with smaller firms which are exempt from this tax. On the other hand, due to many commodity exemptions, it facilitates evasion. There is also duplication or pyramiding of tax on goods in process which makes it rather cumbersome. In addition to the complication which it creates as a result of the required records and reports, the rates are rather high. According to M. O. Dikmen(13), the rates varied between 10 per cent and 15 per cent, in 1947, depending upon whether it fell on manufactured and imported products, banking and insurance, or upon food products.

b) The Corporate Tax

The revenue from Corporate tax has so far been relatively unimportant. Since 1947, a new Income and Corporate tax project has been under study. This is an attempt to consolidate the various taxes through which it is hoped to increase revenue and operate according to the principle of the ability to pay. It remains to be seen how successful the new attempt will be.

As to the Corporate tax prior to 1947, it can not escape a serious criticism. The Corporate tax Law requires 15 per cent withholding tax

on Corporate profits remaining after payment of a flat 10 per cent Corporate tax. However, in case dividends are paid in the same year, stockholders receive credit for this 15 per cent on their personal income tax. This has encouraged corporations to follow a liberal dividend policy, leaving them with inadequate resources for future expansions.

c) The Buildings Tax

The Buildings Tax has had undesirable economic consequences. New buildings are exempt for a period of 3 to 10 years. The personal income tax provides high exemptions for rental incomes and for capital gains on real estate. This has created an artificial demand for real estate and has thus channelled the limited resources away from industrial fields.

d) Stamp Taxes

Turkey's stamp taxes can be considered to have obstructed economic activity. They vary from a fraction of one piaster to several liras, depending on the nature of work and operation. They have caused trouble, uncertainty, excessive cost of compliance, etc. The 1947 estimate shows the revenue from stamp taxes to have been TL 21 million, a sum which could be raised through more proper means with less detrimental effects on the economy.

As a result of State policy, the tax burden has fallen mainly on the urban population. Up to 1923, one third of total tax revenue came from farmers in form of tithe and animal tax. Since then the picture has changed.

The tithe was abolished. The animals tax has been insignificant. In spite of the relative increase of farmers' income, because of inflationary ~~prices~~ rise in the prices of farm products, farmers have been exempted from income tax. Actually, the greater part of tax increase during the last decade has come from both salaries and wages and consumption taxes. The IBRD report on Turkey shows that in 1950 total tax revenue was 17 per cent of gross national product, but an average salary-earner paid, in addition to the indirect taxes, 25 per cent to 30 per cent of his income in direct taxes. If we remember that fixed-income groups after the Second World War had a purchasing power of about one half the prewar level, we can then fully appreciate the heavy tax burden they have been compelled to assume.

Lastly, mention should be made of the fact that State enterprises have, all through, received special and highly favorable tax treatment. State enterprises have not published detailed accounts concerning their financial status and their share of the tax burden. But, it is now an established fact that ^a great many of them have either been completely exempted or subjected to a light tax treatment. This, in addition to other favorable treatments discussed in the previous chapters, has made it difficult for private enterprise to compete with State enterprises.

B. THE FINANCIAL POLICY OF THE ESTATISTS AND ITS EFFECTS ON THE TURKISH ECONOMY

In the light of the above discussion, our criticism of the Statists' financial policy can be summarized in the following points:

1. It is now an established fact that the discounting technique used by Turkey's Central Bank in regard to the Treasury-guaranteed bills of State enterprises has been a serious cause of the inflationary pressure in Turkey. Inflation has not only undermined the community's desire and ability to save, but it has also channelled savings into less productive economic activities. Besides, the fixed-income groups have been hit the hardest. Recent economic discussion in Turkey finds it necessary that the Central Bank discontinues this policy.

On the other hand, while the Central Bank followed such a liberal policy towards State enterprises, its rediscounting facilities for legitimate short-term requirements of private enterprises have been ~~not~~ most inadequate. An attempt on the part of the Central Bank to follow a more liberal policy towards private enterprise will help to accelerate Turkey's economic development.

2. The lack of a consolidated budget in Turkey has made it extremely difficult for the Ministry of Finance to make proper estimates of the need for total expenditures. This has frequently resulted in the inadequacy of receipts and the urgent need for extra money. The tendency has been to cover the deficit by either resorting to new taxes, the economic significance of which lacked proper evaluation, or to deficit financing through the Central Bank. In the absence of a receptive market for Government bonds, the latter technique has been equivalent to the printing of new money and has aggravated the inflationary situation. An attempt at the consolidation of the budget with ^a careful calculation of the financial position of the State will help to bring about a greater harmony in the economy and give an end to improvisation and wasteful use

of scarce resources.

3. The banking system in Turkey, over a period of more than a quarter of a century, has not recorded any significant improvement. There are two important reasons for this. The first has been the deliberate policy of the Government to discourage foreign banking operations and to discriminate against the private national banks. The Central Bank policy of limiting its rediscounting facilities to 90 days on commercial bills is a case worth mentioning. The second reason has been the direct participation of certain state enterprises in banking operations. The Sumerbank and the Etibank have not only financed, owned, and operated many industrial enterprises, but have also taken part in common banking operations. This attitude has limited the already narrow field of private banking activities and has been a contributory factor to the concentration of private banking operations on the commercial and foreign trade sectors. Thus, with the exception of the recently established "The Industrial Development Bank of Turkey", the role of private banks in Turkey's industrial development has been almost nil.

4. Turkey's public debt, in comparison with more advanced economies, gives no reason for alarm. However, the recent increase in public expenditures, the greater part of which has been going to the army, has already made the servicing of the debt rather onerous. Any further increase in the debt, with no prospects of proportional increase in productivity, is bound to put Turkey in a financially tight position; unless Turkey can count on the continuation of the American grants and aids.

5. The Statistic regime, through its years of operation, has contributed to the creation of a highly bureaucratic machine, with its adverse effects on the economy. The existence of redundant employees has brought about inefficiency in work and drain on the Treasury resources. The Turkish Government has recently been aware of this fact and measures are being taken to solve the problem.

6. Turkey's taxation system lacks coherence and complies with neither the revenue criterion nor with social justice. It is the result of improvisations. No real studies seem to have been made, before such taxes were introduced, which would have enabled the Turkish authorities to properly evaluate its effects on the Turkish economy.

Since 1923, it has been the Government policy to shift the burden of the tax to the urban population, among which the fixed-income groups have suffered the most. The idea originally was well-conceived. During the years prior to 1923, the rural population carried the heavy burden of Government finances for peace and war purposes. With the abolition of the tithe, the Treasury lost its main source of revenue and had to resort to other measures. This may have been inevitable during Turkey's initial period of development. But our main criticism lies in the fact that Turkey's taxation system has not shown the desired degree of flexibility with changing economic conditions.

As was shown above, about 56 per cent of ^{the estimated} total tax revenue ^{in 1947} has been ~~came~~ from indirect taxes, with its regressive effects on the low-income

groups. The rural population receives benefits in kind which are exempted from taxes and does not participate in the market economy to the same extent as the urban population. In addition, the farmers are exempted from income taxes. This policy is difficult to justify as, since 1939, the prices of farm products have gone up considerably, bringing substantial profits to the farmers. On the other hand, the urban population, with the exception of ^{the} merchants who, in most cases, have been subjected to relatively light income and corporate taxes, has suffered from inflationary prices and the disproportionate share of taxes (direct and indirect) on their incomes.

Mention was also made above of the ubiquitous stamp taxes whose revenue to the Treasury is relatively unimportant but whose adverse economic effects on business in general can not be ignored. Likewise, an attempt was made to show the inherent defects in the Transactions and Buildings taxes. Also, the favorable tax treatment of State enterprises can, under no circumstances, be justified.

The whole taxation system in Turkey seems to be in a muddle. In most cases it fails to comply with modern taxation canons and fiscal requirements. The verdict concerning the results of the project started since 1947 to revise Turkey's taxation system according to 'net revenue' and the 'ability to pay' criteria will have to await completion.

FOOTNOTES TO CHAPTER VI

- (1) IIRD, The Economy of Turkey (Washington D.C., 1951), p. 211.
 - (2) Ibid.
 - (3) M. W. Thornburg, op. cit., p. 146.
 - (4) IIRD, op. cit., pp 243-44.
 - (5) E. R. Lingeman, op. cit., p. 158.
 - (6) Sefik Bilkur, op. cit., p. 5.
 - (7) E. R. Lingeman, op. cit., p. 160.
 - (8) IIRD, op. cit., pp. 213-14.
 - (9) Ibid., p. 214.
 - (10) M. W. Thornburg, op. cit., p. 158.
 - (11) E. R. Lingeman, op. cit., pp. 22-23.
 - (12) M. W. Thornburg, op. cit., p. 276.
 - (13) O. Dikmen, "Turk Muesele Vergisinde Yeni Inkisaflar," Revue de la Faculte de Sciences Economiques de l'Universite d'Istanbul, October 1945 - July 1946, p. 129.
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CHAPTER VII

SUMMARY AND CONCLUSIONS

Before we summarize our findings and draw our conclusions, it is only fair that we recognize the fact that the Turkish Republic has had a relatively short period to expect from it more than what has already been accomplished. Besides, beginning with 1923, the Turks did not almost start from scratch, but they were also adversely affected, in a period of less than three decades, by two world-wide incidents. These were the Great Depression and the Second World War; both of which were beyond the control of the Turks but subjected the Turkish economy to a serious strain and retarded economic development. Mention should also be made of the fact that, the Statistic policy, which has been the subject matter of our study, did not show its real appearance until 1931 and lost its importance as a result of the victory of the Democratic Party of Turkey in 1950. This limits our survey to a period of only nineteen years. However, this should not be interpreted to mean that we are in full agreement with what the Statists did. We strongly believe that, sincere and honest as the People's Party leaders were, they committed serious mistakes. These mistakes were exposed and criticized in the foregoing chapters.

1. As it can be inferred from our discussion in Chapter I and the introduction to this thesis, we are convinced that any real attempt at the economic development of an underdeveloped country

must come from within. To reach this end, there should exist in such a country certain factors which we have preferred to call 'Driving Forces', all of which combine to create coherence among the people and ^adrive for the betterment of their lots.

This is exactly what happened in Turkey. The Turkish leaders realized the need for such a stimulus and did their best in order to strengthen it. They first attempted to show the Turks that the Ottoman Government, which had become a tool in the hands of the foreign powers, was responsible for their miserable condition. Having convinced the mass of this fact, they found no difficulty in demolishing most of the institutions for which the Ottomans stood. Here the leaders faced a serious problem. Their approach was so far negative. Before embarking upon reforms, they had to decide upon a constructive policy which would replace the old regime and the institutions behind it. This is how 'Kamalism' made its appearance. Ataturk wanted to have his people share in the fruits of modern technology and advance along Western lines. Having decided upon the goal towards which the Turks were to be moved, he did not hesitate to break down those oriental customs and traditions which he considered to be retarding elements or blocking-stones in the way of progress. And to a greater extent he succeeded in doing so.

But all this was again incomplete in itself. A fountain had to be found which would constantly nourish and stimulate the Turks so that they would struggle continuously in order to improve their lots.

This was not easy at all. Long years of tyranny and its concomitant partner, misery, had broken the spirit of the Turks and made them abandon hope. Whatever was to replace the Ottoman past had to be dynamic and invigorating. The solution was found in the pre-Ottoman Turkish history. The 'National Historical Thesis' was developed to show the Turks that they belonged to the oldest and noblest human race on earth. This was almost simultaneously supplemented by the 'Sun Language Theory' where the Turks were introduced as the originators of the first language on earth. In developing these theories, scientific objectivity was completely sacrificed. But this did not bother the Turkish leaders. They were determined to awaken and drive their people towards the assigned goal at any cost.

As to religion, it is true that Ataturk, through his reforms, gave some hard blows to Islam. But, as we attempted to show in Chapter I, we are convinced that the Turks are still good moslems at heart. Islam is still a driving force in Turkey and continues to contribute its share in the creation of a homogeneous group out of the Turks.

Among these forces, we should also recognize the importance of some other factors such as the literary leadership, the existence of a dangerous enemy, the active participation of the Turkish women in the national affairs of the country, the natural resources of Turkey, and the dynamic leadership of a man of Ataturk's calibre. All these forces, acting and reacting one upon the other, have helped to create a strong sense of nationalism in Turkey with a new drive towards progress. But the creation or stimulation of such forces

is not enough. Nationalism is a potential force which is capable of destroying as well as building. Thus the direction which this force is allowed to take becomes of primary importance. It has been our purpose to study the extent to which the Turkish leaders made use of such a dynamic force along constructive lines in the economic field.

2. The distinguishing features of 'Kemalism', which appeared during the first decade after the proclamation of the Turkish Republic, were Republicanism, Nationalism, Secularism, Popular Democracy, and Revolutionism. Statism joined the family in 1931 and made its entrance into the Turkish Constitution in 1937.

The basic concepts behind Statism are found in Ziya Gokalp's writings. Ziya Gokalp was greatly influenced by Western ideologies and changed his views quite often. But he neither completely surrendered to the laissez-faire system nor to Socialism. His attempt was to bring about a synthesis which would blend these Western innovations with the Oriental features of the Turkish culture. In his economic program, which he called Solidarism, he stressed the fact that there was the need of bringing harmony between the freedom of the individual and his economic rights on one hand and equality and social justice on the other. He recognized the rights of both private and public ownership. In other words, he tried to reach a compromise between Capitalism and Socialism. However, he did point to the weaknesses of private enterprise in Turkey and suggested the need for an active State participation in Turkey's economic activities. Thus, Ziya

Gokalp pointed the way to the peculiar form of State Capitalism (Etatism) that developed in Kamalist Turkey.

Beginning with the Republic, the Turkish Government decided to take an active part in the economic activities of the country. Ataturk, in a speech he delivered in 1923, pointed out to the necessity of rapid economic development with Turkish labor and Turkish capital. He insisted that Turkey should attempt to become self-sufficient in as short a period as was possible. The reasons for the advocacy of self-sufficiency were numerous. First, there was the unpleasant memories of the Capitulations and the economic superiority of the minority groups. Second, the inconveniences and shortages of essential materials which the Turks had to cope with during the First World War were hard to forget. Third, economic nationalism throughout the World adversely affected the demand for Turkey's agricultural products. Fourth, Turkey suffered indirectly from the Great Depression. When all these factors are combined, it is not difficult for us to understand why the Turkish leaders insisted on self-sufficiency.

It is to be remembered that while the Turkish Government had decided to enter into the economic field, the period between 1923 and 1933 was characterized by a liberal attitude towards private enterprise. The 'Industry Encouragement Law' was a serious step in that direction. Likewise, the Government did attempt to provide the Turkish entrepreneurs with the credit facilities. This was done through the Ish Bank. It is true that this was limited in scope and was ineffective,

but it was an encouraging sign just the same. Also, beginning with 1929 high customs duties were imposed in order to protect local producers. But the results obtained were disappointing. In other words, they did not meet the expectations of the Turkish Government. The lack of capital, the Turks' poor cultural background, the deficiency in technology, and the dearth of entrepreneurial power made it impossible for private enterprise to bring about the expected progress. Accordingly, Etatism was introduced in 1931.

The main contributor to the formulation of Etatism is Ismet Inom. In 1928, he declared the view that economics and the State were two unseparable components of a whole. He called this doctrine 'Moderate Etatism' in order to distinguish it from the types of Statism which were developed in Italy and Russia. Through Inom, we are able to know that Etatism aimed at the industrialization of Turkey with an eye on its defence requirements. It was an economic doctrine through the application of which it was hoped to develop Turkey and put it on equal footing with the European countries.

It is to be remembered that Etatism was not meant to have the State embrace all the economic activities of the country. Private enterprise was promised to receive the State's constant encouragement. However, in practice, it was seriously discriminated against. Critics of Etatism point out that if it were not for the State's active participation in Turkey's economic activities, private enterprise would have contributed more to productivity, thus making it possible for the Turks, at present, to enjoy a higher national income. We consider such an argument fruitless. The fact that

the State did take part in economic activities, makes it impossible for us to tell what private enterprise could have done in the absence of such an active policy. However, in the light of our knowledge of the condition of private enterprise in Turkey before Etatism was applied, we are inclined to believe that such optimistic speculation has no reliable foundation.

Mention should also be made of the fact that Turkey's Etatism has no universal character. It should not, by any means, be confused with other types of Statism which exist at present. It is true that Western ideologies have influenced the formulation of this doctrine. But Etatism as it was conceived and applied in Turkey was the product of what the Turkish leaders thought to be advisable and necessary for Turkey.

Our major criticism of Turkey's Etatism, as a doctrine, is its inproportionate emphasis on the industrialisation of Turkey at any cost, without proper recognition of the Country's economic structure, and the vagueness in its principles. This ambiguity has adversely affected Turkey's economic development. However, dogmatic as the leaders were in their Etatistic doctrine, they have shown a reasonable degree of flexibility in their approach in response to World and local political and economic conditions.

3. The industrial policy followed by the People's Party is in full consistency with the declared Etatistic principles. If we keep in mind the fact that the *raison d'etre* of Etatism was the attempt

of making of Turkey a self-sufficient country, with a special emphasis on the defence requirements, the form and direction Turkey's industrialization program took becomes understandable. However, ~~we~~ we are justified in criticizing the State industrial policy on the grounds that the economic consequences of State measures did not receive proper evaluation.

First, the techniques used in raising the necessary investment funds in order to finance the operations were defective and have had unfavorable repercussions on the Turkish economy. The availability of only limited annual savings in Turkey made it impossible for the Government to rely much on borrowing, although this technique was used. Taxation was an important source of revenue and the Government made extensive use of it. However, due to the deficient taxation system, the burden of the tax fell inproportionately on different income groups, causing hardship to many, especially the fixed-income groups. The policy of quoting high prices on some of the State-produced products, where private enterprise was denied competition, in order to partly cover losses and partly raise the funds for expansion, brought suffering to consumers and limited the funds available for private enterprise. Lastly, the attempt of raising money through the Central Bank, which was in effect equivalent to the printing of money, has been a major contributor to the serious inflation in Turkey^e, with its adverse effects on the Turkish economy.

Secondly, Turkey's industrial policy was carried through the Sumerbank and the Etibank. Aside from the fact that these institutions

ought not to have been permitted to deal in normal banking operations, their organization was defective. The fact that they were not required to follow the proper cost-accounting system made their supervision in respect to their use of the funds and the measurement of the degree of efficiency and productivity in their operation almost impossible. Also, these institutions were never asked to pay the Treasury dividends or repay the amount of money extended to them. This naturally relieved their managers from the obligation of having to use enough energy and foresight in the combination of factors and to attempt at minimizing costs. Again, the organization of State enterprises can be characterized by its high degree of bureaucracy and inefficiency. To this we have to add the system of salary- and wage-payments which was based on seniority, with its adverse effects on initiative and the urge for improvements and individual accomplishment.

Thirdly, in the creation of State-enterprises, economic 'needs' were made subservient to other ulterior aims. Military and other non-economic factors received the preponderant weight in the location of some State industries. The transportation system was also affected by State policy. Railroads were built to connect important strategic centers. Highways were deliberately neglected for defence purposes. The State emphasized the importance of technical training but subjected the technicians and experts to the command of political managers. This resulted in poor technical and entrepreneurial operation. Capricious State decisions added to the timidity of private enterprise and adversely affected the development of an industrialist class in Turkey. High

protection lessened the need and urgency (in both State and private industries) for an increase in efficiency and a reduction in cost. The drive for self-sufficiency resulted in the misallocation of badly needed resources. State policy, through its taxation measures and arbitrary decisions, helped in the creation of an insecure market which also resulted in the misallocation of privately-owned resources. Government discrimination against private enterprise, through the restriction of credit facilities, kept the rate of interest high and retarded industrial development. The high cost of fuel and energy was either directly or indirectly caused by State policy. Heavy taxation added substantially to the production cost of private industries. Price control practices caused, in some cases, injustice to private industrialists and helped create a black market and enriched middlemen at the expense of producers. The deliberate discouragement of foreign investment retarded industrial development and deprived the people from the fruits of certain productive activities which could have come from ~~the State~~ such sources. Also, mention should be made of the fact that the State, as an active participant in the economic activities of the country, indulged in favoritism and nepotism both of which seriously affected economic development in Turkey.

In conclusion, we are inclined to think that the Statistic policy, as applied to the industrial sector of the Turkish economy, was not conducive to an appreciably high productivity. It is true that State industrial production added considerably to the total production of the country. But all the State did was to create 'pocket' industries

which failed to diffuse themselves in the economy. The increase in the national income from the industrial sector has been unimportant. Besides, when the numerous adverse economic effects of the Etatistic policy in industry is taken into consideration, the area representing the success of such a policy narrows still more.

4. The agricultural sector of the Turkish economy seems to have received the least attention of the Etatists. It is true that the Turkish Government has recognized the importance of agriculture for Turkey, but, in practice, State contribution to that end has been negligible. The attempt on the part of the Government, through the Toprak office, to stabilize the prices of important agricultural products, and help in grading and standardization was well-conceived. But the improper provision of storage facilities greatly lessened the effective results which were expected from such a policy. As to grading and standardization, it is to be conceded that important steps were taken in that direction. But again the success of the Government was limited.

The results obtained from the State policy of credit extension to farmers, through the Agricultural Bank and the Credit Cooperatives, were not very encouraging. This was because the greater part of extended credit was of the short-term type. Medium- and long-term credit, which would have helped farmers to improve their farms, was almost non-existent. Even some of the short-term credit was poorly administered, bringing hardship to the farmers and forcing the Bank to contract credit. A study of the national income figures for 1935-36 and 1943 show a slight increase in the per capita income of the farmers.

In the light of the figures presented in the text, we venture to say that the Etatists made the wrong choice in the selection of the policy of development. This is where our cautious remark, in regard to the importance of channelling Nationalistic feelings in the right direction, comes to focus. Unfortunately, it usually happens that when a nation is driven by certain dynamic forces, with the expectation of bettering its lot, it becomes over-enthusiastic and a victim to short-sightedness. Attempt is made, at such times, to bridge the gap in too short a period, & blinding itself to the economic structure of the country. And this is exactly what happened in Turkey. No real attempt was made by the Turkish leaders to stop and see what the Turks really needed and what policy would give the best results.

No real effort is required to see that Turkey is basically an agricultural country. Only a small percentage of the total area is annually cultivated, while over seventy five per cent of the Turks get their livings from agriculture. But, it is to be remembered that over fifty per cent more of the total area is cultivable. The Etatists could have obtained much better results if, instead of indulging in building industries haphazardly, they had spent the investment resources on the development of agriculture and related industries where the redundant labor force in agriculture could have been productively employed. Such a policy would not have only led to a higher standard of living than what has been attained, but it would have also made it more possible for the Etatists to approach their goal of some sort of self-sufficiency, if that was absolutely necessary.

5. The foreign trade policy of the Statist/s, which is characterized by its restrictions and high tariffs, was in harmony with their industrial and agricultural policies. The factors which combined to make such a policy necessary were numerous. Faced by a serious trade deficit up to 1929, Turkey's share of the Ottoman debt, the effects of the Great Depression, and the need for protecting the infant industries, the Statists had no choice but to resort to high tariffs and foreign exchange control. Then came the Second World War which brought about a shift in emphasis but necessitated the continuation of strict control. Through this policy, the Turkish Government was able to straighten its balance of payments difficulties. Actually, the period from 1930 to 1946 show a favorable balance of trade with an accumulation of a large sum of gold and foreign exchange.

It is to be conceded that high protection and strict control of exports and imports, as well as control of foreign exchange and capital movements, were perhaps inevitable for a country in Turkey's position. However, the long-run view ought to have been the increase in production in both the industrial and agricultural sectors which would have eventually increased exports and led to an increase in imports. But, unfortunately, the increase in total production over the last thirty years has not been appreciable enough to make it possible for Turkey to release its controls sufficiently. This can be easily seen from the fact that, due to relative relaxation of imports since 1947, Turkey has been having trade deficit and balance of payments difficulties again. These difficulties have been temporarily met by American aid and grants. But the Turkish

authorities have already started to worry about the situation the solution of which will perhaps necessitate the reintroduction of strict controls.

In order to successfully carry a policy of a highly regimented foreign trade, the Turkish Government entered into numerous bilateral trade and payments agreements and arrived at compensation arrangements. However, the benefits derived from such arrangements are doubtful. Although export surpluses were disposed of at high prices, through such measures, the profits derived therefrom went only to a small group of exporters. On the other hand, as a result of such agreements, high prices were paid for imported commodities and, in some cases, forced Turkey to import domestically unneeded products. Here, of course, not only the consumers suffered from high prices, but resources were wasted. Needless to say, the existence of highly protective tariffs, in the absence of a wise developmental economic policy, lead to the protection of inefficient methods of production and a waste of the scarce and badly needed investment resources. High tariffs also effect consumers through the high prices of imported commodities. Likewise, mention should be made of the fact that, due to the nature of Turkey's important exportable products (semi-luxury), the policy of "short-term most advantageous sales in bulk lots," has prevented the development of stable markets and regular customers for the Turkish commodities, especially with complementary economies. A study of Turkey's terms of trade for a number of years show that, with the exception of the War years,

they have been unfavorable. This is a further proof to show that we have no reason to believe that Turkey's foreign trade policies have been conducive to beneficial results.

6. As to the financial policy of the Statists, we strongly believe that it has been faulty on many counts. It is true that, broadly speaking, the Turkish Government has been able to keep its finances in a relatively good position. However, the unfavorable economic consequences of its unintegrated policies, defective as some of them were, in the fiscal, taxation, monetary, and banking fields have been serious.

First, the declared Statist policy emphasized the determination of the Turkish Government to stabilize the purchasing power of the national currency and insisted on following the principle of balancing the budget. The measures taken in the foreign trade sector were in line with such a policy. However, the fact that the Government did not attempt to obtain a consolidated budget made it extremely difficult for the Minister of Finance to make proper estimates of the need for total expenditures. This frequently resulted in the inadequacy of State revenue and the urgent need for extra money. Under the circumstances, it was impossible for the Statists to stick to their principle of a balanced budget. In the absence of a receptive market for Government bonds, the State had to resort to new taxes or deficit financing through the Central Bank. The latter technique has aggravated the inflationary situation. Domestic prices rose sharply and the Turkish lira depreciated greatly

in relation to the foreign currencies. Although the total debt figure does not show a cause of alarm, the servicing of the debt, especially after the 1946 devaluation, has become onerous. The deliberate discouragement of foreign investment, until the change in their policy in 1947, added its weight to the depreciation of the Turkish lira. Also, the strict control of the movement of foreigners in Turkey (contrary to the declared Statist policy of encouraging tourism) deprived Turkey from an important source of foreign exchange.

Secondly, the banking policy followed by the Statists has been rigid and suppressive. Foreign banking was deliberately discouraged, while private national banks were seriously discriminated against. The fact that the Sumerbank and the Etibank were allowed to deal in normal banking operations limited the already narrow field in which private banks were to operate. The difficulties shown by the Central Bank in rediscounting commercial papers have contributed to the concentration of private banking operations on the commercial and foreign trade sectors and deprived private banks from taking a serious part in Turkey's economic development.

Thirdly, the Statistic regime, through its years of operation, has caused the creation of a highly bureaucratic machine, with its adverse effect on the Turkish economy. The existence of redundant employees has brought about inefficiency in work and drain on the Treasury resources.

Fourthly, Turkey's taxation system, as adopted by the Statists, lacks coherence and complies with neither the revenue criterion nor with social justice. With the abolition of the tithe, the Government shifted the tax burden to the urban population. But, with undeveloped income and corporate taxes, the fixed-income group of the urban population has, through both direct and indirect taxes, been hit hard. In addition to this, the serious inflationary condition, reduced the purchasing power of the lira to almost one half of its prewar level. This increased the burden of the tax still more. The rural population, on the other hand, enjoyed a relatively light tax burden. The farmers have been receiving benefits in kind which are not subjected to tax and have been exempted from the income tax. When we realize that the prices of farm products for the last decade have gone up considerably, bringing substantial profits to the farmers, such a lenient attitude of the Government towards farmers becomes wholly unjustifiable.

Also, mention should be made of the detrimental economic effects of the ubiquitous stamp taxes and the basically defective Transactions and Buildings taxes. These factors have combined to retard business activities and have channelled investment resources towards unproductive activities.

Lastly, it is to be noted that State enterprises have always received favorable tax treatment. This discriminatory tax treatment has made it difficult for private enterprise to compete with State enterprises. Such a lenient attitude of the Turkish Government towards its industries can, under no circumstances, be justified.

APPENDIX I-A

Source: Donald Everett Webster, The Turkey of Ataturk (Philadelphia, 1939), Appendix E, pp. 309-313.

Note: The same order of lettering has been observed.

6. Liquid capital is important in Economy. The only source of normal capital is national work and saving. Therefore, the essential principle of our Party is to increase work, and to instill the idea of saving in the individual, the family, and in general, in State, local and national administrations.
7. The problems of credit shall be looked after with the importance proportionate to the needs. The cheapness and ease of interest and discount in credit transactions is our main desire.
 - e) The credit needs of miners, industrialists, handicraftsmen, small traders, fishers, and sponge fishers shall be provided for.
 - f) The methods of providing credit for industrialists, and against machinery and implements for sea products shall be systematised.
15. The industries which the State or individuals shall establish for the industrialization of the country shall conform to a general program. The items of the State program shall follow one another in such a way as to render the country an industrial unit.

The industrial undertakings shall not be concentrated in certain parts of the country, but shall, instead, be spread all over the country, taking into consideration the economic factors.

In order to prevent conflict of interest between producers and consumers of industrial products, the State shall organize price control. Apart from this, financial and technical control shall be established for the State factories.

The financial control of establishments, the majority or totality of whose capital belongs to the State, shall be organized in such a way as to conform to their commercial character. We shall emphasize the rationalization of work.

Trusts or Cartels which establish unity of price against the consumers shall not be allowed. Those undertaken for the purpose of rationalization are excepted.

21. We shall encourage the canning industry.
 32. To exploit and render valuable our underground wealth, our water power, and our forests shall be a special part of our work. We consider the electrification of the whole country one of the main items in the progress of the Turkish Fatherland. We shall continue our researches in order to determine the real value and extent of our wealth in this category. It is our aim to found a financial establishment to take care of these enterprises. These undertakings are the main fields of application of the statist qualification of our Party.
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APPENDIX I-B

Source: C.H.P., C.H.P. Program ve Tuzugu, 1947, pp. 22-24.

Note: This was adopted by the VIIIth Congress in 1947. The following articles concerning the Industrial Policy were translated by this writer from Turkish. The same order of lettering has been observed.

e. INDUSTRY

60. Our Party, taking into consideration the needs of the country and the natural resources available, is determined to improve, encourage, and protect the industries according to rational principles.
61. In industrialization, the following principles will be observed:
- a) To protect, establish and improve industries which will provide food, shelter and clothes to the people at cheap prices and in great quantities. Also, it will protect those industries which will facilitate the operation of the first.
 - b) To give special importance to industries the raw materials of which are provided from the country and also establish and protect those which use imported raw materials but are generally demanded by the local consumers.
 - c) To materialize the plans for energy production which will make full use of water and coal which will be used in power stations.
 - d) To make use of foreign capital in accordance with the laws of the country and on equal basis.
62. Although in the selection of locations of State enterprises the possibilities of their future development will be taken into consideration, we prefer to distribute them over different regions instead of having them concentrate in one region.
63. We shall give importance to the development of our sea, lake, and river products as they are productive sources of wealth.
64. In the administration and operation of State enterprises, we use will be made of private-enterprise features. Also, personal payments will follow a scale which will encourage personal initiative and productivity.
65. We consider small industrialists and business men as basic elements in our economy.
- Our Party finds it essential to take the necessary in order to:
- a) improve the sanitary conditions of the working places of small industrialists and business men,
 - b) improve their professional knowledge.
66. We shall carry careful studies concerning the social conditions and professional status of the small industrialists and business men in order to provide them with the necessary security.
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APPENDIX I

TABLE I

Foreign Companies Taken over by the
Turkish Government
(1925-1947)

<u>Founded</u>	<u>Company</u>	<u>Nationality</u>	<u>Taken over by the Turkish Government</u>
1856	Izmir-Aydin Railway	British	1935
1862	Smyrna Gas	"	1936
1867	Smyrna Quays	French	1932
1869	Smyrna Tramway Co.	Belgian	1939
1872	Istanbul Tunnel Co.	"	1938
1877	Istanbul Waterworks	British	1932
1879	Oriental Railways	French	1936
1884	Tobacco Regie	"	1925
1885	Mersin-Adana Railway	British	1928
1886	Kadikoy Waterworks	French	1937
1889	Anatolian Railway	German	1928
1891	Istanbul Quays	French	1935
1894	Izmir-Kasala Railway	"	1934
1896	Eregli Coal Mines	"	1936
1896	Smyrna Waterworks	Belgian	1944
1902	Haydar Pasha Port	German	1938
1903	Bagdad Railway	"	1933
1910	Istanbul Electricity	Belgian	1938
1911	Istanbul Telephones	British	1936
1917	Bursa Electricity	Italian	1939
1917	Edirne Electricity	"	1939
1917	Balikesir "	"	1939
1917	Tekirdag "	"	1939
1917	Gaziantep "	"	1939
1917	Mersin "	"	1939
1918	Ergani Copper Mine	Turco-German	1936
1924	Istanbul-Seydikoy Gas	Belgian	1944
1925	Smyrna Telephones	Swedish	1938
1926	Smyrna Elec. & Tramsways	Belgian	1943
1928	Ankara Elec. & Gas	British	1939
1928	Adana Electricity	Formerly German	1939
1923	Ilica-Palamitluk Railway	French	1941
1930	Hatch Co.	American <i>dd</i>	1943
1892	Balya-Karaydin (Lead mines)	French (exhausted)	1939
1927	Zingal (forest and saw mills)	Belgian	1945
1932	Ghobanbey-Mardin Railway	French (Formerly German)	1947

Source: E. R. Lingeman, op. cit., pp. 133-34.

APPENDIX II-A

Source: Donald Everett Webster, op. cit., pp. 307-318.

Note: The same order of lettering has been observed.

Part III. Agriculture

- 7 - b. It is right to provide for the seasonal credit needs of small farmers by means of agricultural credit cooperatives, and the yearly credit needs of farm owners by means of mortgage credit.
- c. The methods of granting credit against crops, live stock, agricultural implements, and machinery shall be systematized.
- d. It shall be provided that the day of payment of farm credits be postponed until after such time when the crop can be sold to the best advantage, without pressure on the part of the buyers.
10. Our Party considers the encouragement of cooperative undertakings as one of its main principles. We think it important to establish and increase the number of credit and sales cooperatives which will benefit the agricultural producers with the real value of their products. The Agricultural Bank of Turkey is the Mother Bank of agricultural cooperatives.
11. It is our aim to render the Agricultural Bank more useful especially to the economy of the peasant and farmer, and to see that it is owned in such a way as to secure its control on legal basis.
20. The following matters shall be considered:
- Not to let the price of wheat, which is first in quantity and value among our agricultural products, fall below its worth.
- To widen and strengthen the measures to counteract the changes that may take place to the disadvantage of producers and consumers.
- To this end, we shall continue the work of constructing grain elevators and warehouses, already begun. It is a duty to keep sufficient grain stocks to suffice in case of national defence or unexpected drought.
29. We attach great importance to reducing our agricultural products and our fruits to types suitable for exportation, and to producing the quantity of raw materials needed for our home industry. To this end, we shall work intensively on the improvement of seeds, tree nurseries, and tree grafting.
30. The advancement of the agricultural industry is one of our main tasks.
31. In order to protect the work of producers we shall fight the diseases and enemies of plants and animals.
33. We shall endeavor to encourage, ameliorate, and increase the breeding and rearing of live stock, and to advance the live stock industry.
34. It is one of the principal aims of our Party to render each Turkish farmer owner of sufficient land. It is necessary to enact special laws of appropriation in order to distribute land to farmers owning no land.
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APPENDIX II-B

Source: C.H.P., op. cit., pp. 17-21.

Note: It is translated from the Turkish text by this writer. The same order or lettering has been observed.

V. Economic Policy

A. Cooperatives

1. It is our purpose to develop agricultural cooperatives into institutions which will help increase agricultural productivity, reduce agricultural cost, and stabilize the prices of agricultural products.

C. Agriculture

41. We consider agriculture the main source of our economic activities and the villagers and farmers the basic elements of our nation. We give importance to the increase in agricultural productivity and improvement in its quality as well as to the social rise in the standard of our villagers and farmers.
42. It is our aim to distribute land to landless farmers, make it possible for them to acquire the necessary agricultural implements and facilitate their work through credit extensions.
It is our purpose to distribute all productive state-land to farmers.
43. It is important that in the expropriation of land we follow principles which will inspire confidence in private ownership, and specify the maximum acreage to be left with the individual, and the benefits of socialisation. This has to be done within the spirit of the Land Law.
44. It is important that we make the Agricultural Bank financially strong enough to meet farmers' short- and long-term credit needs.
45. In attempt to stabilize the quantities of agricultural products, we shall keep their prices at a level sufficient to protect and help improve the standard of our villagers and farmers.
46. It is our purpose to free the farmers from their traditional but primitive ways and means of farming and equip them with means of modern agricultural technique and provide them with good seeds.
47. To establish scientific agricultural stations in the country hoping to reach the farmer at the shortest possible time.
48. We shall encourage handicraft and household industries hoping to give an end to seasonal unemployment.
49. We shall follow a plan of animal-husbandry and encourage proper industries which will make use of animal products. The state will serve as a leader in this respect and will establish stations to fight animal diseases.

50. Privately grown forests will not be nationalized. The state, will protect and assist all such attempts.
 51. It is a basic principle that state-owned forests will continue to be operated by the state. It is important that state-forest-enterprises operate to provide employment for those who live near-by and will, under no circumstances, enter the lumber industry.
 52. The forest policy will be directed to provide people with their needs for lumber, and heat, but equal importance will be given to the exploitation of the lignite fields in order to alleviate the pressure of demand on forest products.
 53. We consider the protection of agricultural property essential and conducive to agricultural development.
 54. We are determined to establish agricultural insurance policies in order to protect the farmers and fruit-growers from ~~the~~ floods, drought, hail and other catastrophs.
 55. We are determined to give primary importance to irrigation projects hoping to relieve the farmers from droughts. This will be done according to a nationwide plan.
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APPENDIX III-A

Source: Donald Everett Webster, op. cit., pp. 310-312.

Note: The same order of lettering has been observed.

Part III. Foreign Trade

12. It is our obligation to regulate our balance of payments and to keep our foreign trade in balance.

Our principle in foreign trade and commercial agreements is to buy the products of those who buy our products.

17. We consider exportation one of the important national activities and the regulation of foreign trade one of our main economic duties. We shall render fruitful the activities of those engaged in commerce. We shall be closely interested in facilitating the sale of our national products and manufactured articles, in safeguarding their reputation, in insuring their export, and in measures to be taken for their standardization. We desire to let our foreign trade function in accordance with an exportation policy which conforms to the necessities and requirements of different markets. We also want to strengthen our foreign trade with State aid. ~~We shall have also want to strengthen our foreign trade with State~~ We shall have organizations which will furnish those engaged in the export trade with information they need to succeed in their work.
18. We consider it a good policy to create, when necessary, free zones which will benefit the State in foreign trade transits.
19. We shall always consider carefully the port, dock, quay, and loading and unloading tariffs which shall be made to conform to the requirements of national economy.
22. We consider the tourist ~~we~~ trade (tourisme) a means of making Turkey known and liked abroad, and a means of benefiting the Turkish economy.
24. . . . We shall further the State Navigation Administration according to an extensive program. In this connection, we attach importance to freight shipping.
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APPENDIX III-B

Source: C.H.P., op. cit., pp. 21-22.

Note: It is translated from the Turkish text by this writer. The same order of lettering has been observed.

d. Trade

56. We consider trade a fundamental component of the national economy; and free competition the main condition for progress in national trade.

We shall encourage trade along lines conducive to profits for both producers and consumers. Accordingly, we find it necessary to regulate trade through the State and its special administrations.

57. We agree to improve our foreign trade in order to develop our national economy and meet our needs, with a constant eye on the balance of payments.

58. We find it necessary to control our export products in order to maintain our relations with the foreign markets. The qualities of our export products will be given special attention.

We consider it especially important that our State offices in the foreign countries try to introduce our products to foreign markets and help our merchants contact the right markets for the imported products.

59. Our Party considers it important that our citizens get acquainted with their country and we shall work according to a deliberate program in order to encourage foreign tourists.
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APPENDIX IV-A

Source: Donald Everett Webster, op. cit., p. 313.

Note: The same order of lettering has been observed.

Part IV. Finance

36. The principal idea of finance in our Party is a budget based on continued and real balance. We consider regular payments important for the Treasury, and a principle in the tax payments of the citizens.
 37. It is our aim to place the imposition of taxes on an indirect and net revenue basis. Our efforts shall continue, in the meantime, to better our fiscal laws with the view of rendering them practical and applicable without disregarding the capacity of the nation for payment.
 38. It is one of the matters which we consider important, to try and (sic) to put our customs tariffs and formalities on a basis more in harmony with the economic interests of the nation.
 39. We consider suppression of smuggling a means of protecting the rights and authority of the Turkish Treasury.
 40. The State Monopolies constitute a source of revenue to the State Treasury, and serve the national economy by protecting the value of the products which enter their field of activity.
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APPENDIX IV-B

Source: C.H.P., op. cit., pp. 27-28.

Note: It is translated from the Turkish text by this writer. The same order of lettering has been observed.

VI. Financial Policy

75. We consider the strong financial position of the State a fundamental principle which serves the needs of both the country and the citizens.
- We consider it necessary that the budget be prepared in such a way as to show a tendency for growth of revenue proportional to the increase in the national income and be classified to meet the needs of the country.
76. We consider it essential that the national currency be stabilized in its purchasing power.
77. We shall improve our taxation system in the light of its revenue, based upon social justice, and following the principle of progressive rates on income.
78. In an attempt to protect the low-income group, we shall reduce the indirect taxes on the basic necessities and strike a balance between indirect and direct taxes.
79. We shall attempt to develop our Animals Tax into a Production Tax. However, pending such development, we find it necessary that we, at present, exempt plough animals from taxation.
80. We find it necessary to adopt methods of tax imposition and collection which will insure the convenience of the tax-payers.
81. In an attempt to increase the economy's rate of development, we find it desirable that we take recourse to short- and long-term internal and foreign borrowing.
82. We find it necessary that the number and salaries of Government employees be regularized according to the real need for their services.
83. Our tariff policy will be formulated in such a way as to insure revenue as well as to protect the national economy.

However, protection of the national economy will be made in the light of international prices and rational operations of industries in order to avoid great sacrifice on the part of the consumers.

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