THE EVOLUTION OF WESTERN ECONOMIC "AID" IN THE POST-WAR PERIOD: THEORY AND PRACTICE

BY

CANER ERTUNA

Boğaziçi University
Department of Economics

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CONTENTS

INTRODUCTION

This study is a modest attempt at bringing together and integrating the historical and logical aspects of economic and political reality in the context of post Second World War economic "aid" theory and practice in the western world. The primary objective of this study has been to bring out, to the extent possible, how theory and practice have influenced and interacted with one another as the economic and political process of "aid" evolved into different forms historically.

In the paper, the application of economic "aid" during the post-war period has been treated as logically continuous but historically different two periods, namely the period of the Marshall "aid", and that of developmental "aid". In accordance with this, first and second part of the study have been devoted to the analyses of these two periods, respectively. Along the study, factors and conditions underlying these periods, distinquishing features of them, and their consequences have been tried to be determined.

In the study, it has been emphasized that Marshall type of "aid" arose under extra-ordinary post-war circumstances and gained an apparent "success" in its own context in a rather short time. As regards the source, form, and channel, it can be regarded as a pioneering, "naive" application of foreign "aid". On the other hand, "aid" practice evolved into developmental type in a different historical context which witnessed a growing interest in the development question. Needless to say, the inspirational role of the phenomenal apparent "success" of the Marshall Plan can not be underestimated in attributing a great importance to "aid" in promoting the progress of the LDÇs, The developmental "aid" has flourished the application but entered into a crisis in a rather short time. More euphemistically, as the world has begun to return to the pre-"aid" period, i.e., to commercial lending practices, the needs of developing countries contradictorily have mounted to a considerable extent during the last two decades.

One of the basic themes in this study, which has been received mainly for analytical convenience, is the apparent difference in paths to progress of developed and less-developed economies due to their places in the international division of labor. Since the development of LDCs is an enormously complex, difficult, and time-consuming process, the degree of "success" of developmental "aid" in achieving the well-known development objectives is a rather moot point.

As a developing country, Turkey provides an interesting case for students of foreign "aid", for the Turkish case presents possibilities for a comparative study of the consequences of "aid" for countries whose place in the international division of labor differ considerably. Accordingly, the third part of the study has been devoted to a short assessment of Turkey's post-war experience with western "aid".

In general, this paper aims at drawing a general framework for detailed researches in related specific areas in line with the meaning of a master thesis. Therefore, conclusions ventured here are rather general and need be developed by detailed studies.

PART I

THE EMERGENCE OF "FOREIGN ECONOMIC AID" AND THE MARSHALL PLAN

1. The Conception of the "economic aid" idea:

A lot has been written and told about devastations of World War II. From an economic viewpoint, the impact of the war on Europe can be briefly summarized as an unprecedented material destruction, a huge loss of human resources and a significant decline in economic welfare.

Despite this adverse picture, Europe's capital stock was not completely eliminated. A production potential or an invisible stock of capital survived in the form of accumulated human skills together with a high morale in England, the Resistance spirit in France, the efficiency orientation in Germany, and an optimism shared by the peoples of all countries.

On the other hand, the developments during the interwar period provided the objective foundations of new searchings in the Western World. The Great Depression had radically changed established views and habits. This change has found its theoretical expression in Keynesian macroeconomics which diverted attention from growth to stability and full employment, leading to growing state interference domestically, and protectionist practices and competitive devaluations on the international front.

Searchings for a better future by western countries continued until the Bretton Woods Agreement in 1944. Those prevailing hopes and optimistic prophesies of the day stated below reflect themselves in the talks of Bretton Woods.

(a) The growing importance of the U. N. in the world scene would help to handle security issues easily and secure the world peace;

(b) Since the world would enter a period of peace, the expenditures for armament would decrease and more resources could be directed into the rehabilitation and development of economies;

(c) In the western world, mainly in the U. S., it was believed that new economic developments such as growing world production and expanding world economy which would increasingly tend to bring about free trade and convertible currencies, would reinforce or sustain this security and peace period.

We know today that the prognoses stated above have never materialized after the war. In 1945, "the heat of the war" had gone out, but "the war" had been still continuing.

The U. S. had emerged as the most beneficial country from the war. "Just as the barbarian wars were more salutary for Rome than the last stages of the so-called Roman peace that preceeded them, observershave sometimes wondered if

World War II did not benefit the people of the United States more than the decade of so-called peace that went before it."[1] The U. S. did not face a devastation comparable to that of the other combatant countries, but emerged with massive accumulation of gold and foreign exchange reserves from the war.

The table below shows the percentage distribution of gold and foreign exchange reserves among the developed western countries in various years.

TABLE 1.

Distribution of gold and foreign exchange reserves in percentage among developed capitalist countries

Indicator	Years	U.S.A.	E.E.C.*	EFTA**	Japan	World Total
1. Gold and foreign exchange	1938	53	23	10	1	100
	1949	48	11	3	-	100
2. Gold	1938	56	23	11	1	100
	1949	71	10	4	-	100

Source : International Monetary Fund, International Financial Statistics, September, 1954.

* Continental Europe (Austria, Belgium, Denmark, France, Germany, Italy, Holland, Norway, Sweden and Switzerland)

** United Kingdom

As Pinto and Kñabal have put it, "in 1949, after World War II, the United States had in its coffers almost a half

(1) Harry Stark, The Emerging World Economy, W. M. C. Brown Co., Publishers, Dubuque, Iowa, 1963. p.31.

of the world's gold reserves and foreign exchange and almost three quarters of the gold"[2]. The favourable trade balance of the U. S., the "feed pump" function of U. S. lending and investment, and coming off the gold standard during Roosevelt's administration must have chiefly been responsible for such redistribution of international reserves in favor of the U. S.

Against such massive accumulation of gold and foreign exchange reserves in the U. S. coffers, post world war Europe was badly in need of economic recovery. This situation together with two important political developments, that is, "a new political equilibrium"[3] which seemed to be established after the war, and the rapid break-up of European Empires in Asia and Africa had formed a proper objective ground for the application of "aid".

These postwar developments left the U. S. one necessary course of action: to preserve "capitalism" against the new and developing socialist system on the one hand, and to try to revive the world trade, on the other, with the help of

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(2) Anibal Pinto and Jan Knâbal, "The Centre-Periphery System Twenty Years Later," Social and Economic Studies, 1973, p.35.

(3) The concept, "a new political equilibrium" was used by Alvin Hansen as a geographical term in content. Its content originates from the factors below: (i) Two great economic and military world powers. "A happy geographical accident - two great powers occupying vast continents and controlling vast resources in areas that are non-competitive - this fact must be set down as a dominating and directing force in the future course of history" (A. Hansen, America's Role in the World Economy, pp. 16-17, W. W. Norton and Co., Inc., New York, 1945); (ii) The equally balancing powers of British Empire and China (Ibid, p. 17); (iii) Germany, which was surrounded by "on the one side the crushing might of a new Russia and on the other the demonstrated power of the U. S. and the British Empire", (Ibid).

the massive international reserves it had in its coffers. For a "workable international world," economic warfare, which had been undertaken via export pushing or import-curtailing protectionist policies during the interwar period, should be ceased and "equal" trading parties should be created. IMF and IBRD would also help in this respect.

The objective conditions were presumably favourable to the realization of the objective of reconstruction, since the U. S. gold possessions "directly increased the money supply (demand deposits) and excess bank reserves. Excess reserves, in turn, induced banks to increase their investments which further increased demand deposits."[4] The result was a high liquidity position which wolud facilitate any kind of financing with low rates of interest. Moreover, the gross savings of the U. S. were around 20% of its national income, or $28 billion out of $140 billion in early 1940's. As Hansen has remarked , "It will not be easy to find satisfactory and profitable private investment outlets for this vast volume of savings within the territory of the U. S. Forèign loans and foreign investments can make a contribution to the solution of our savings-investment problem."[5]

A new and large scale Plan, however, was required to realize the so-called "aim" of reconstruction, since the limited scope of the UNRRA, which aimed only at the relief

(4) Ibid., pp.154-55.

(5) Ibid., p.142.

and rehabilitation of Europe, was not adequate for the long-run necessities of reconstruction, and Lend-Lease, which had been the product of war atmosphere and which implied "beggar my neighbour" type of practice. Thus the Marshall Plan came to help.

2. Basic Factors Leading to the Marshall Plan:

The objective conditions of the postwar United States and Europe seemed to fit very well a large-scale planned "aid" from the former to the latter. Foreign Assistance Act of 1948 emerged as a "consensus" between philanthrophy on the one side, and political, strategical, and economical intentions and objectives on the other, under the predominant pressures of economic and political factors.

The political factors involved were more or less self-explanatory. In addition to the emergence of a world socialist system and the liberation of older colonies, the internal political conditions in Europe were matching completely the definition of a "crisis". The Marshall Plan and Its Meaning, prepared by the U. S. Governmental Affairs Institute , describes this "crisis" in terms of spreading labor movements in France (due to the high rate of inflation), and Italy (due to persistent unemployment), and the growing influence of Communist Parties in France, Italy, Greece, Czechoslovakia, and Austria in particular.[6] Such social and political

(6) See Harry Bayard Price, The Marshall Plan and Its Meaning, Cornell University Press, Ithaca, New York, 1955, pp.31-35.

developments certainly constituted a threat to the interests of private enterprise in countries with market economies. New strategic factors, which were important in the sense that they could change the type of "aid", were added to these political factors after the 1951 Korcan crisis, during the second half of the Marshall Plan.

Among the economic factors, economic crisis in Europe arising form low production and productivity, inflation and balance of payments problems; immediate recovery requirements, and the availability of the U. S. capital in rehabilitating or revitalizating European economies can be listed.

It must be stressed here that economic factors were accorded the highest priority in the specification of the "root" of the problem. The Policy Planning Staff's Memorandum, which was presented to Secretary Marshall on May 23, 1947, states "(The Marshall Plan) should aim, ... not to combat communism, but the economic maladjustment which makes European society vulnerable to exploitation by any and all totalitarian movements and which Russian communism is now exploiting."[7] This implies that political stability was considered to be dependent upon economic recovery. In his Cambridge speech on June 5, 1947, Marshall observed "It is logical that the U. S. should do whatever it is able to do to assist in the return of normal economic health in the world, without which there can be no political stability and

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(7) Ibid., p.22.

no assured peace. Our policy is directed not against any country or doctrine but against hunger, poverty, desperation, and chaos. Its purpose should be the revival of a working economy in the world so as to permit the emergence of political and social conditions in which free institutions can exist."[8] This line of reasoning was considered as "a deeper meaning of the Marshall Plan."[9]

The consideration above stressed the role of a workinq international order in assuring world-wide political stability and peace, and reflected an awareness of the close interrelation between economic and political phenomena. Such an awareness may be observed in both political and economic writings of the day. For instance, Hansen's views in favor of international collaboration against economic isolation of the interwar period found its political expression in Stimson's words: "We Americans today face a challenging opportunity, perhaps the greatest ever offered to a single nation ... First and most important, Americans must now understand that the U. S. has become, for better or worse, a whollv committed member of the world community ... Time after time in other years we have tried to solve our foreign problems with half-way measures, acting under the illusion that we could be partly in the world and partly irresponsible ..."[10]

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(8) Ibid., pp.25-26.

(9) Ibid., p.12.

(10) Henry L. Stimson, "The Challenge to Americans," Foreign Affairs, October 1947, pp.5-14.

3. The Donor's Motives or the Rationale Behind The Marshall Plan:

It might appear at the first sight that the U. S. had expected only political returns from the mobilization of huge sum of money as "aid". However, in the official preparatory documents, trading interests appear to have gained a priority over related interests. For instance, "The Nourse Report" states "It is predicted that without a new aid program there would be a sharp drop in American exports."[11] And in the Report of the Advisory Group in "Harriman Committee" it has been observed that "Our goal should be to bring about a condition where exports from this country are more nearly balanced by a return flow from abroad of services and materials essential to our own economy."[12]

It has already been mentioned that the volume of savings was disproportionately greater than the investment opportunities in the U. S. before the Marshall Plan, while the opportunity cost of transferring money abroad was low. Prospects of access to markets which lended themselves to easy recovery in terms of their capacity to absorb U. S. capital and advanced technology as well as the desire to create a basis for trade between "equivalent" parties have presumably been quite effective in the conception of the Marshall Plan.

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(11) H. B. Price, op. cit., p.40.

(12) Ibid., p.43.

Such economic expectations together with political objectives such as "fighting communism" and philantropic orientation formed the "spirit" of the Plan and played a considerable role in moulding public opinion. But this is not the whole story. The U. S. was also rational in the application of "aid" when it supported coordination among European recipients under the concepts of "joint effort" and "mutual assistance", and when it promoted local currency "counterpart" funds mechanism. Because the development of intra-European trade due to the mutual efforts like competitive devaluations and gradual unification would attribute basic responsibility to the recipients, and secure duration of the application of "aid" to be shorter, while "counterpart" funds mechanism would guarantee the long-term U. S. exports by helping the U. S. control investments.

4. Significance of the Marshall Plan:

The Marshall Plan marks a transfer of huge amount of public sources in the form of grants to a large extent under a plan for the first time in the world history except for war times. The concept of "foreign aid" entered into economics literature along with this event.

The Marshall Plan was a natural outcome of restricting role of the widespread defaults during the interwar period for private foreign lending.[13] It expressed the "new" approach

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(13) See Santikumar Ghosh, The Financing of Economic Development, The World Press Private Ltd., Calcutta, 1962, pp.43-44.

to international economic policy in the post-war period by "new" capitalism characterized mainly by "state regulation of the economy, state-owned enterprises and the appropriation and redistribution of the greater part of the national income by the state."[14]

This "new" approach brought about the nucleus of the most elaborated channels of "aid" expressed as "bilateral aid within multilateral framework" by P. N. Rosenstein-Rodan[15] under "new" international institutional framework of the post-war period. Later on, when the problems of development and widening inequality between nations gained importance in "aid" decisions and implementations, experience of the Marshall Plan in this respect would play a guiding role.[16]

As it has been already mentioned, Marshall "aid" was given in the form of grants and "aid" tied to specific projects under a definite program. Hence it marks the beginning of intensively debated issues from the viewpoint of the form of "aid", namely grants vs. loans, and "aid" for plans vs. for projects, during the age of development.[17]

In conclusion, the Marshall Plan should be regarded as a "naive" application of "foreign aid" which contains nuclei

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(14) E. Varga, 20th Century Capitalism, Lawrence and Wishart, London, 1961, pp.112-13.

(15) P. N. Rosenstein-Rodan, "The Consortia Technique," in Foreign Aid, J. Bhagwati and Richard S. Eckans, eds., Penquin Books, 1970, p.227.

(16) T. Balogh, "Multilateral vs. Bilateral Aid." in Foreign Aid, p.203.

(17) See W. E. Schmidt, "The Economics of Charity: Grants vs. Loans" in Foreign Aid, pp.184-86; and H. W. Singer, "External Aid:For Plans or Projects?" in Foreign Aid, p.294 and 298.

of all of the later "aid" programs related to their sources, forms and channels.

5. The "Success" of the Marshall Plan:

The "success" of an "aid" program may be evaluated from the donor's or the recipient's standpoint in relation to the objectives of the involved parties. In view of the complex set of political and economic considerations which inspired the Marshall Plan, however, the evaluation here is confined to the economic consequences of the Plan. Even here, a quantitative assessment of the contribution of the Marshall "aid" to the post-war recovery of Europe is a difficult task which shall not be attempted here. And yet it may be helpful to look at a few indicators which summarize the post-war economic situation in Europe.

According to the OEEC statistics, the industrial production index in the OEEC countries had already reached its pre-war level during the last quarter of 1948, while the agricultural production index was somewhat higher during the 1949-50 crop year. In all OEEC countries industrial output per man year (as a measure of productivity) attained their pre-war levels in 1949. (See Appendix - I) On the other hand, inflationary pressures in Western Europe were blocked at large by the spring of 1949.[18] (See Appendix - II) In the first half of

(18) However, since achievement of financial stability was not so easy, inflationary pressures emerged again during 1951 due to the military expenditures and public expenditures against prevailing maladjustments in income distribution.

1952, inflows of foreign exchange equalled outflows for the OEEC countries such that the BofPs problem also appeared to be solved. (See Appendix - III) The expansion of intra-European trade as a result of collective efforts at the integration of Europe, the expansion of export trade with the rest of the world, chiefly U. S. and Canada, together with reduction in dollar imports and competitive devaluations in 1949 in Europe must have contributed to the solution of the latter problem which was delayed due to the adverse effects of raw material shortages on European countries' BolPs during the Korean Crisis.

Despite the improvements with respect to productivity, industrial output, and the BofPs, little success was recorded in the living standards of the masses over their pre-war levels. As H. B. Price has put it, "At the end of 1950, workers in most Western European countries were approaching their pre-war levels of real earnings. Even so, their standards of living were still dangerously low, especially in France, Italy, Western Germany, Austria and Greece - countries in which the threat of internal dissension was greatest."[19] Moreover, varying degrees of inequality in income distribution and unemployment persisted into the post war era as important structural problems in most of European countries.

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(19) H. B. Price, op. cit., p.142.

The above indicators of short-run performance or recovery may be viewed against the longer-run growth indicators of the European economy for a more complete picture. Broadly speaking, the European economy, the relative weight of which has gradually declined in the world economy since 1914, has entered into a new period after World War II.

Quoting Kuznets, "in the developed countries of Europe, total product grew in the 1950's at decadal rates ranging from 30% for the United Kingdom to 103% for Germany, with most rates within the range from 40 to 60%; while per capita product grew at rates ranging from 24 to 81%, with most rates within the range from 24 to somewhat over 40%."[20]

A review of the longer-run growth performance of Europe reveals that the decadal rates quoted above are higher than the long-run growth rates of both total and per capita product which ranged from 20 to 37% and 14 to 28% respectively in various European countries. (See Appendix-IV)

It is a well-known fact that not only Europe but the whole world entered into a period of considerable economic expansion after the war. It is interesting to note, however, that Europe ranked the second during 1950-70 period after Soviet Union with respect to the growth of total product (See Appendix - V). Further, it is also important to note that Europe tended to challenge the dominant position of the

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(20) Simon Kuznets, Postwar Economic Growth (Four Lectures), The Belknap Press of Harvard University, Cambridge, 1964, p. 97-98.

U. S. in the western world not only from the view point of growth but also with respect to its export performance and its share in the distribution of the world reserves, mainly during 1950s.[21]

It is hard to determine precisely the role of the Marshall "aid" in these relatively long-run developments. According to a U. N. study:

"There is a rather strong tendency for countries with high rates of growth of the labor force to have experienced high rates of growth both of total domestic product and of labor productivity, and vice versa, suggesting that a rapid increase of the labor force (and population) is favorable not merely to growth of total national product, but also to growth of output per head. But the association does not hold for all countries.

"The association of rates of growth of domestic product with rates of fixed capital formation is less strong than that of growth rates of labor force and domestic product; but for the thirteen industrial countries, other than Norway, it is fairly close ...

"Among the industrialized countries alone, relatively low incremental capital/output ratios were associated with relatively rapid rates of expansion of GDP."[22]

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(21) See Anibal Pinto and Jan Kñakal, op. cit., p.45.

(22) U. N., Some Factors in Economic Growth in Europe During the 1950s, Geneva, 1964, Chapter II, pp.38-39.

In the same study, the "Marshall type of aid" is regarded as one of the determinants of fixed capital formation between 1949 and 1959. "In the earlier postwar period, domestic savings was supplemented in most Western European countries by foreign aid intended to help to overcome war-time disruption of their economies as well as to close balance-of-payments gaps."[23]

Marshall "aid" was often proclaimed as "an investment operation" in official documents. In this respect, it certainly paved the way for capital accumulation in the early post-war period. It can also be claimed that it played a significant role in initiating the post-war European growth through its supply and demand effects.

The demand for investment and consumption goods, which had postponed during the war due to the military expenditures, could be released for the revival of the domestic economy without leading to an immediate over production problem. Such rising demand well suited the prospects for large scale production, which, in turn, facilitated the introduction of new techniques necessitated by the pressure of demand. Productivity and scale of production increased rapidly in response to the favorable demand and supply conditions. The step-up of the technical assistance of ECA during the first half of 1951 has also been significant factor in this respect.

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(23) Ibid., Chapter IV, p.11.

Having acknowledged the positive contribution of all the above factors, the chief factor underlying the "success" of the Marshall "aid" in opening up the era of growth in Europe has probably been its place in the international division of labor which made specialization in industry possible. The advantages of such specialization are well-known. Among them the favorable terms of trade effects of industrial exporting have received special attention in the literature on trade and development. In his well-known case study of Europe, Kindleberger has noted, for example, that in its trade relations with poorer countries Europe's terms of trade has improved by 55% between 1913 and 1952.[24]

(24) See C. P. Kindleberger, The Terms of Trade: A European Case Study, New York, 1956, p.234.

PART II

"FOREIGN AID" FOR DEVELOPMENT

1. The Age of Development and the Origins of Developmental "aid"

The liberation of older colonies and the emergence of competition between socialist and capitalist systems after the 1950's have radically changed the political geography of the world, and marked the beginning of the age of development. The general features of this age were rising aspirations and intense efforts at development on the part of LDCs, the increased role of international organizations operating in various fields, and the rapid growth of theoretical studies on economic development in the western world. The former two express practical aspects of the age, while the latter is relevant for theory.

a. Practical aspects:

Just after World War II, the U. S. was definitely the leader of the western world. However, as the Marshall "aid" terminated, significant changes were observed in this part of the world. As Kuznets has put it, "among the developed non-communist countries the highest rates of growth in per capita product in the 1950's are for Japan, Germany, Austria, and

Italy - the countries that sustained the greatest material losses during the war; while the lowest rates are for the U. S. and Canada - countries that were able to continue their technological and other advances even in wartime."[25] It has already been pointed out that Europe had started to challenge the leading position of the U. S. in the western world as regards its export performance and its share in the distribution of the international reserves particularly during the 1950's. These developments suggest that the dominant position of the U. S. in the western world was significantly staggered. And yet the diffusion of political and economic power in the western world did not, broadly speaking, have major repercussions from the standpoint of their relations with the developing countries.

The factors increasing interest in the problems of development among developed countries may be regarded as one of the main indicators of the community of interests of these countries. These are political factors, humanitarian motives, and economic interests, Needless to say, these are also main determining factors of "aid" policy towards developing countries countries by the developed.

Perhaps the single most important cause of rising interest in the development question in the western developed world was the collective efforts of the LDCs, at making their voices heard both on the international and on national platform

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(25) S. Kuznets, op. cit., p.99.

after the mid 1950's.[26] A U. N. document, which companed welfare of national units and indicated an "unfair picture" on the world scene, might have played an effective role in initiating these efforts.[27] By the 1960's, it was impossible for the voices of LDCs not to be heard at U. N. meetings. In 1961, The General Assembly of U. N. decided on a meeting of U. N. Conference of Trade and Development (UNCTAD) in which the problems of trade and development would be discussed. Along this Conference, the first Development Decade Program was accepted. Unfortunately, the targets of this Program could not be achieved during the 1960's and they were softened in the preparation of the second Development Decade Program. After 1970, LDCs, which became aware of the inadequacy of mere goodwill, began to increase to bargaining power in international issues through strenghtening the solidarity between them.

1970's also marked the emergence of significant differences of opinion between the western developed countries and LDCs at international meetings. "The North-South Dialogue" (International Conference on Economic Cooperation), which was first held in 1975 in Paris, was considered as a forum for the reconcialiation of conflicting interests of the involved parties. However,the decisions taken in all of these meetings have remained on paper until today. The development

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(26) In April 1955, Bandung Conference was held in Indonesia, and it was proclaimed that the development of Asian and African countries was a matter of international consideration for the first time in this Conference.

(27) See, Statistical Office of the U. N., National and Per Capita Incomes of Seventy Countries in 1949, Statistical Papers, Series E, No. 1, New York, 1950.

problem of the underdeveloped countries continues to be a central concern of both the developed and the underdeveloped world.

This continuing importance of development question manifests itself in the fact that "foreign aid" became a significant and essential element of international relations. Besides new physiognomy of world scene particularly expressed by growing inequality between developed and less-developed countries (See Appendix VI (a) and (b)), the apparent "success" of the Marshall Plan might have played an inspiring role in alloting funds for development objectives.

b. The Relevance of "aid" to Theoretical Studies on Development:

Clearly enough, the development question has two dimensions, the international and the national. The international dimensions concern the international division of labor, the structure of world trade, and the international monetary and financial system. These issues are related to the establishment of a New Economic World Order, and constitute the subject-matter of international policy recommendations. The majority of the theoretical studies on economic development, which have gained popularity in the western literature, are generally related to the domestic aspects of the development problem of the LDCs such as their internal economic structures and trade prospects.

Factors hindering the economic development of underdeveloped countries, which have been brought out in theoretical studies on development, are mainly the shortage of savings and foreign exchange reserves, and low-productivity. "Foreign aid" gradually came to be regarded as an effective means of overcoming these problems. Accordingly, initial attempts in this respect were directed towards the estimation of aggregate "aid" requirements of developing countries.[28]

Along with the empirical studies concerning "aid" requirements, theoretical studies speficially on "foreign aid" also began to develop. Those underlying these studies, are the savings - investment gap approach developed by Rosenstein - Rodan and applied by IBRD later;[29] the trade gap approach which can be regarded as the extension of the views of H. Singer, R. Prebisch, and G. Myrdal;[30] and the capital-absorptive capacity approach which has become the subject of various controversies.[31] The most comprehensive theoretical

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(28) See, U. N., Measures for the Economic Development of Underdeveloped Countries (Report by a group of experts appointed by the Secretary General), New York, 1951. This is the first study in the field.

(29) An example of this is Benjamin B. King, Notes on the Mechanics of Growth and Debt, The john Hopkins Press, Baltimore, Maryland, 1968.

(30) The most important of them is that of R. McKinnon's acticle, "Foreign Exchange Constraints in Economic Development and Efficient Aid Allocation", Economic Journal, 74, June 1964, pp.338-409.

(31) Examples are T. Schultz, Transforming Traditional Agriculture, New Haven, Yale University Press, 1964; Edward S. Mason, Foreign Aid and Foreign Policy, Harper and Row, New York, 1964; John Adler, Absorptive Capacity: The Concept and Its Determinants, The Brookings Institution, Washington, 1965; Ravi Gulhati, "The Need for Foreign Resources, Absorptive Capacity and Debt Servizing Capacity," mimeo, Washington, 1965.

studies on "aid" are those of Chenery and Strout, of Frei and Paauw, and of McKinnon.[32]

2. A "Misleading Analogy"

At this point, it seems appropriate to digress into a discussion which is closely related to the "aid" issue, the less-developed countries of today develop by following the example of today's developed ones? If the key to economic development is the availability of capital and underdeveloped countries are too poor to provide the capital for themselves, M. Friedman has argued "currently developed countries were once underdeveloped. Whence came their capital? The key problem is not one of probability but of incentive and of proper use."[33]

Friedman's analogy which ascribed the present under-developed state of LDCs to such factors as want of desire in establishing free market economies, in raising the volume of domestic savings and stimulating foreign investment received a severe attack from Charles Wolf. He pointed, "In effect, Friedman's analogy is misleading because the urgency of

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(32) See, H. Chenery and A. M. Strout, "Foreign Assistance and Economic Development," AER, September 1966, pp.679-733; J. Frei and D. S. Paauw, "Foreign Assistance and Self-Help: A Reppraisal of Development Finance," Review of Economics and Statistics, 47, August 1965, pp.251-67; R. J. McKinnon, "Foreign Exchange Constraints in Econmic Development and Efficient Aid Allocation," Economic Journal, 74, June 1964, pp.388-409.

(33) M. Friedman, "Foreign Economic Aid: Means and Objectives," in Foreign Aid, p.69.

development is greater and the available resources smaller in the currently underdeveloped countries than in the classical examples he has in mind."[34]

As a matter of fact, Wolf's criticism overlooked the historical conditions partly or largely responsible for the present differences in levels of development or the gulf between today's developed and underdeveloped countries. As Bhagwati has pointed out "The division of the world into the rich and the poor nations has been dated by economist Simon Kuznetz, as having begun nearly a century and a half ago: presumably contemporaneously with the Industrial Revolution."[35] Similarly Dasgupta remarks "Historical experience suggests a negative association between colonial rule and industrial revolution is not in doubt ... while colonial rule by no means excludes economic progress, the kind of progress that, at best, it favors is not the stuff of which industrial revolutions are made (i.e., rapid and far-reaching change in technology and economics, often also in social relations and the structure of power)."[36]

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(34) Charles Wolf, "Economic Aid Reconsidered" in Reshaping the World Economy (ed. by John A. Pincus), Prentice-Hall Inc., Englewood Cliffs, N. J., 1968, pp.80-81.

(35) J. N. Bhagwati, "Economics and World Order From the 1970's to 1990's: The Key Issues," in Economics and World Order (ed. by Bhagwati), MacMillan Co., London, pp.5-6.

(36) Ajit K. Dasgupta, Economic Theory and The Developing Countries, Macmillan, London, 1974, pp.10-11.

Do not today's developed countries possess the advantage of not having passed through a colony or semi-colony experience? If this is true, any analogy, which leads one to expect the same "success", as that of the Marshall Plan from "aid" for development ignoring, however, the significant differences in the places of countries in the international division of labor and their economic structures, can not be deemed realistic.

3. Changing Features of "Aid" Practice in the Age of Development:

"Foreign aid" became a significant and essential element of international relations in the age of development. The volume of "aid" and the number of countries involved in "aid" practice increased considerably.[37] The cold war and the involvement of socialist countries in "aid" practice should have played a stimulating role in these increases, whereas high growth performance of the most European countries during the 1950s prepared favorable conditions for alloting more resources for "aid".

Besides common motives of the western donors, certain specific objectives in their "aid" policy can be distinguished. Quoting R. Mikesell, "Unlike the United States, Britain and

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(37) While total $\$$35-36 million was mobilized for the efforts of developing countries during the 1950-60 period (See U. N., The Capital Development Needs of the LDCs, Report of the Secretary General, New York, 1962, p.21), this figure is $\$$ 45.8 billion for 1976 only, and projected to be $\$$ 69.8 billion in 1980. (See W. B., World Development Report, 1979, p.9.)

France have not had to develop a special rationale in terms of either free world security, or universal humanitarianism for obtaining public support for their aid programs. Political, cultural, economic and humanitarian objectives are merged with a feeling of mutual interest based on a long association between the European powers and the developing areas over which they have had sovereignty".[38] However, the historical relationship which existed since the early part of the nineteenth century between the United States and the Latin world, of course, played a significant role in American "aid" programs.[39]

"The only other large European donor, Germany ceased to be a colonial power after World War I and Germany's objectives, while influenced by the Cold War and the desire to promote western ideology in the developing countries, are to a considerable degree directed by her economic interest in promoting trade and foreign investment in the developing countries."[40]

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(38) R. Mikesell, The Economics of Foreign Aid, Weidenfeld and Nicolson, 1968, pp.4-5.

(39) The relations of USA with Latin America during the 19th century should be taken into consideration in the context of colonialism. Already in 1812, the U. S. provided commodity aid to Venezuela in an unsuccessful effort to help that country overthrow its Spanish masters. (See Harold A. Bierck, Jr., "The First Instance of U. S. Foreign Aid: Venezuela Relief in 1812," Inter-American Affairs, Vol. IX, No. 1, Summer 1955).

(40) R. Mikesell, op. cit., p.13.

These different motives provided a favorable ground for the U. S.' attempts at creating a more equitable cost-sharing mechanism in the western "aid" practice. Accordingly, cooperation in "aid" practice among western countries came about in the early 1960s. This cooperation, which is characterized by DAC, EIB, IDA, and Consortia and Consultative Groups, particularly took the form of bilateral "aid" within a multilateral framework in Rosenstein-Rodan's sense, and as Rosenstein-Rodan has pointed out "besides mobilizing aid funds from many quarters the consortium technique has the great advantage of being suitable for lending on the basis of a program which shows whether the projects composing it constitute additional investment and whether they follow criteria of priority (optimality)."[41]

Rosenstein-Rodan's this argument in favor of Consortia marks the emergence of clear distinction between project and program credits in "aid" practice and debate after 1960. In 1968, transitions from project to program "aid" at the turning of the 1960 decade and consequently appearance of distinction between these two bargains are described as such by two development economists: "The 'project approach' had predominated through the fifties. The World Bank had been enjoined by its very statutes to extend loans only on the basis of specific projects (in transportation, power, agriculture, and so forth) ... By 1960 criticism of the

(41) Rosenstein-Rodan, "The Consortia Technique," pp.228-29.

project approach was widespread."[42]

During the last two decades, export credits also appeared as another type of "aid" flow particularly as a result of the interests of multinational corporations. Both project "aid" and export credits brought about a debate on "tying of aid". In line with this debate, the concepts of "real burden" and of "real aid" appeared in the literature.

All these developments and additionally hardening of financial conditions of "aid" due to the rapid expansion of private sources of financing especially after the mid-sixties explain why the concept of "external debt" took the place of "aid" in the literature, even though this emerged late. Accordingly, debt postponements were observed during the 1960s at a great extent. Debt posponements were the necessary result of increasing debts of less-developed countries which are firmly tied to "aid" practice in the era of "debts". When the debtors can not make repayments, do the lenders tolerate breaking off relations with them, or do they give more time to them? Considering long-term interests of lenders, postponement seems more plausible. But postponements and softening the conditions on debts cause an increase in discontentedness among the peoples of lenders. Here is the point where the discussions on "absorption capacity", "debt-servicing capacity", and "credit worthiness" intensify. But

(42) Albert O. Hirschman and Richard M. Bird, Foreign Aid - A Critique and A Proposal, Princeton, New Jersey, 1968, pp.3-4.

postponements and softening of financial conditions of debts were not alone, moratoriums, consolidations of debts, refinancement credits, and debt rejections were also on the scene. All of these imply that the application of western foreign "aid" entered into a crisis.

This crisis manifested itself severely during the last decade. Presumably, an only positive development in this period of crisis is the involvement of OPEC in "aid" practice from 1973 on. The rise in OPEC countries' earnings brought about a massive build-up in international liquidity, and created a new phenomenon of "Eurocurrency", which is deposited earnings of especially OPEC countries in European Banks. Especially middle-income countries (according to World Bank classification) became able to utilize these proceeds in their development efforts.

4. A Summary Statement of the Debate on the "aid" issue in the age of development:

The first part of this study did not contain a discussion of theoretical and empirical studies in the evaluation of the impact of the Marshall Plan on the recipient countries since such studies are largely lacking in the literature. On the other hand, the consequences of the Marshall Plan were so clear that it did not permit any discussion. As regards the consequences of developmental "aid", no concensus has been reached yet in the literature. The very fact that a large and controversial literature has emerged in this area is suggestive. The difficulty here must stem from the complexity and multi-dimensional character of the development problem and requires comprehensive studies working their way to theoretical synthesis.

Following is a summary statement of the debate on the "aid" issue as it has evolved in the age of development.

After the initial results of the "aid" practice have been obtained in the early 1960s, empirical studies attempting at its evaluation and problems thereof gained importance in the literature. Needless to say, in the evaluation of the results, value judgements play a significant role.

In particular, the political considerations involved in the "aid" - giving practice received considerable attack from the opponents of "aid". And yet those who opposed "aid" opposed it on different grounds. Some regarded western "aid" as "a means of imperialism" were totally against it.[43] Others only opposed the political nature of "aid" and argued that it could be utilized with humanitarian motives to contribute to the economic development of less-developed countries and lessen the existing international inequalities

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(43) Examples are Theresa Hayter, Aid as Imperialism, Pelican Books, 1970; Robin Jenkins, Exploitation, Macgibbon and Kee, 1970 (saying "for the countries that have recently attained their independence, the greatest threat is the subtle method of neo-colonialism, which even whilst giving economic 'aid', to those countries, develops new ways of penetrating their economies for the monopolies", p.108); and E. Varga, op. cit., (arguing "Although a great deal is said about 'aid', for the under-developed countries by the imperialists, the very nature of imperialism is a hindrance to any such help", p.103)

in the distribution of income.[44]

There were yet other opponents of "aid" whose position differed from those who opposed it on political grounds. Among these, some defended liberal trade rather than "aid".[45] Most of the "aid" recipients, on the other hand, also favored "not aid, but trade policy" with the proviso that a more equal international trading system should be devised. Others, for example, Griffin and Enos in their well-known article have claimed:

"In general, foreign assistance has neither accelerated growth nor helped to foster democratic political regimes. If anything, aid may have retarded development by leading to lower domestic savings, by distorting the composition of investment and thereby raising the capital-output ratio, by frustrating the emergence of an indigenous entrepreneurial class, and by inhibiting institutional reforms. Precisely how widespread and strong are these negative influences still remains to be determined, but the limited evidence available suggests that aid programs, as currently administered, and insofar as they are concerned with economic development,

(44) See for example Rosenstein-Rodan, "The Have's and Have-not's" in Economics and World Order: From the 1970's to the 1990's Ed. by J. Bhagwati, Macmillan Co., London.

(45) The striking example is M. Friedman arguing "The objectives of foreign economic aid are commenable. The means are, however, inappropriate to the objectives ... An effective programs must be based on our own ideology, not on the ideology we are fighting. Such a program would call for eliminating the inconsistency between the free trade and free enterprise policies we preach and the protectionist and interventionist policies we at least partly practice. An effective and dramatic program would be to commit ourselves unilaterally to achieving completely free trade by a specified and not too distant date." (M. Friedman, op. cit., pp.77-78).

frequently are counter productive,"[46]

It is interesting to note that some of the above views of Griffin and Enos conform to Friedman's in that sense one should abstrain from making categorical distinctions among the opponents of "aid".[47]

As regards the defenders of "aid", who are mostly development economists, some hold that the role of "aid" in closing or narrowing the trade gap can not be underrated,

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(46) K. B. Griffin and J. L. Enos, "Foreign Assistance: Objectives and Consequences," Economic Development and Cultural Change, Vol. 18, 1970, pp.325-26.

(47) For example, Griffin and Enos emphasize "... the experiences of history provides no support for those who believe that capital imports played an important role in the development of today's wealthy countries" (Ibid., p.317) and reach a conclusion "...in general, foreign assistance is not associated with progress and, indeed, may deter it." (Ibid) The same emphasis can also be found in Friedman's words "currently developed countries were once under-developed. Whence came their capital?" (Friedman, op. cit., p.69) and almost the same conclusion (but of course with stressing upon different aspects of the problem like adverse impact of strengthening the government sector at the expense of the private sector) "Foreign economic aid, far from contributing to rapid economic development along democratic lines, is likely to retard improvement in the well-being of the masses" (Ibid., p.78). Moreover, an additional analogy must be noted here in Griffin and Enos' words "In general, foreign assistance has neither accelerated growth nor helped to faster democratic political regimes".

while some ascribe to it a very significant role in getting rid of the savings gap.[48] And yet some others favor it on philanthropic grounds.[49]

The authors above, who concerned with the "aid" issue, dealt with its different aspects. However, the debate revolved around the following issues or questions:

a. Who aids whom?

b. What are the objectives and criteria of foreign "aid"?

c. In what volume, and forms, under what conditions is "aid" given? What is its nature?

d. What is its ultimate impact on the recipients?

The debate on the above issues roughly developed along the following lines. Until the 1970s, we observe some general statements which are somewhat "naive". The articles of M. Friedman and C. Wolf referred to above may therefore be regarded as pioneering in the sense that they set the stage for the subsequent debate. In their short articles, the "aid" issue was mainly regarded as a question of political preference. As the "aid" practice flourished, analytical studies concerned

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(48) See, Chenery and Strout, op. cit.; Rosenstein-Rodan, "The Aid for Underdeveloped Countries" in Foreign Aid, (ed. by J. Bhagwati and R. Eckins), Penguin Books, 1970.

(49) See, Frederic Benham, Economic Aid to Underdeveloped Countries, Oxford University Press, London, 1964; Barbara Ward, The Rich Nations and the Poor Nations, W. W. Norton and Co. Inc., New York, 1962.

with the economic aspects of "aid" gradually began to replace the politically-oriented evaluations. In particular, issues such as the impact of "aid" on less-developed countries, the objectives and conditions of "aid", its nominal and real value gained importance. Among these, the consequences of the impact of "aid" on the recipient countries attracted special attention in the literature.

The evaluation of the impact of "aid" was mostly undertaken through the use of sophisticated models (mostly developed by H. Chenery) which may be regarded as extensions of the simple Harrod-Domar type model. Despite subsequent modifications in the original Chenery-type models, their basic assumption remained the same as G. Papanek has pointed out "... each dollar of foreign resources would result in an increase of one dollar in imports and investment."[50] This criterion clearly differed from traditional economic analysis: "... conventional wisdom would hold that any additional resources are used in part to increase consumption and only in part to augment investment."[51] The viewpoint of conventional analysis, which attaches relatively more importance to welfare, was revived in the successive studies carried out in the 1970s. Among them, one, which has given rise a feverish dispute, is the article by Griffin and Enos previously referred to.

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(50) G. Papanek, "The Effect of Aid and Other Resource Transfers on Savings and Growth in Less-Developed Countries," Economic Journal, Vol. 82, 1972, p.934.

(51) Ibid., p.935.

In their famous article, they cited six reasons why funds other than grants might not cause the country to stand more firmly and independently: "foreign savings might substitute for domestic savings; they might worsen the composition of investment; they might increase the dependence upon foreign exchange and materials; they might finance unavitable processes and uneconomic plants; they might discourage local entrepreneurship; and they might deter institutional change."[52]

The above views aroused considerable criticism. Charles Issawi criticized Griffin and Enos' simple regression equation which indicated an inverse correlation between "aid" and economic growth. He argued "In view of the complexity of the factors involved, such correlations are simply meaningless, for correlation does not indicate causation."[53] On the other hand, Mitchell Kellman was chiefly concerned with the alleged "counterproductive behavior of aid for growth" argument by Griffin and Enos, which was said to discourage domestic savings which are supplanted rather than supplemented by the foreign savings. [54] Kellman also pointed to the possibility of two-way causation between growth and "aid". He said "The authors reject the possibility that the

(52) Griffin and Enos, "A Reply to our Critics," Economic Development and Cultural Change, Vol. 20, 1971-72, p.156.

(53) Charles Issawi, "Foreign Assistance: Objectives and Consequences: Comments," Economic Development and Cultural Change, Vol. 20, 1971-72, p.143.

(54) M. Kellman, "Foreign Assistance: Objectives and Consequences: Comments," Ibid., p.144.

causability in the (negative) relationship between aid inflows and income growth rates may in fact be from growth to aid. They argue that in light of their apriori analysis, aid affects growth 'and not vice versa'."[55]

Another criticism of Griffin and Enos' article was made by A. Mead Over, who questioned the implications of their study on econometric grounds. He argued "... Griffin and Enos present a regression equation which purports to demonstrate that an increase in the aid rate (f) decreases the domestic savings rate (s). Since their evidence estimates the decrease in s as less than the increase in f, I do not agree that this is evidence that aid inhibits growth; on the contrary, an increase in aid would appear to permit the people to live better this year as well as in the future."[56]

The most notable opponent of Griffin and Enos is Gustav Papanek. In his famous article, he analyzed the impact of "total resource inflows" rather than "aid".[57] He maintained a critical attitude towards those economists, "revisionists" in his own words, who argued that "foreign inflows, and especially aid, make little contribution to economic growth, once account is taken of their effect in reducing savings

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(55) Ibid., p.145.

(56) A. Mead Over, "An Example of the Simultaneous-Equation Problem: A Note on 'Foreign Assistance': Objectives and Consequences," E.D. and C.C., Vol. 23, 1975, p.755.

(57) G. Papanek, "The Effect of Aid and Other Resource Transfers on Savings and Growth in Less-Developed Countries," Economic Journal, Vol. 82, 1972.

of the poor rate of return on aid-financed investment and of debt service changes".[58] He held instead "In some circumstances, foreign inflows undoubtedly stimulated savings, so that each dollar of inflows led to more than a dollar of investment, while in other cases they discouraged savings and a dollar of inflows may have led to much less than a dollar of investment. However, as long as both savings and inflows are substantially affected by third factors, the negative correlation between the two found in many studies sheds little or no light on their causal relationship."[59]

Griffin, being one of the "revisionists" in Papanek's sense, did not yield to the above criticisms but insisted on their views (with Enos) in his rejoinders to Issawi, Kellman, Rottenberg, and later on Over: "... in part, foreign capital supplements consumption or, what is the same thing, reduces domestic savings (if the level of income is given) or reduces the proportion of income saved (if the level of income rises)."[60]

Papanek replied to Griffin's comment by recapitulating the central argument of his well-known article, "in some countries such exogenous factors as wars and poor harvests, and their after-effects, cause both low savings rates and

(58) Ibid., p.935.

(59) Ibid., p.950.

(60) Griffin, "A Comment," Economic Journal, Vol. 83, 1973, p.864.

high foreign inflows, primarily aid. Further, that in other countries such exogeneous factors as a deterioration in the terms of trade cause both low savings and high 'foreign inflows' financed by drawing down reserves, foreign borrowing and aid. In yet other countries, the existence of oil or other natural resources results in both high savings rates and low inflows of foreign resources, especially aid. As a result, foreign inflows and savings are often negatively correlated, but such correlation does not mean that high inflows cause low savings or vice-versa."[61]

The above discussions suggest that the debate on the "aid" problem has tended to become concentrated on rather specific issues and consequently narrower in content.

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(63) G. Papanek, "A Reply to Dr. Griffin and Professor Newlyn," Economic Journal, Vol. 83, 1973, pp.873-74.

PART III

A SHORT ASSESSMENT OF TURKEY'S POST-WAR EXPERIENCE WITH WESTERN "AID":

The Turkish experience with foreign "aid" provides an interesting case for students of post-war western "aid" due to her involvement in both the Marshall Plan and developmental "aid" programmes. In particular, the Turkish case presents interesting possibilities for a comparative study of the consequences of "aid" for countries whose places in the international division of labor differ considerably.

From the standpoint of Turkey's own development history, the historical significance of the Marshall Plan can not be overlooked, for it not only opened up prospects for the political, economic and ideological integration of the country with the western world but also strengthened her place in the international division of labor. It may even be ventured that contrary to the oft-cited argument, the definitive development path of Turkey was not drawn in Economic Congress of 1923 in İzmir but by the Truman doctrine and related developments. Unfortunately, an analysis of the economic impact of the Marshall "aid" on the Turkish economy is still lacking. The more immediate economic consequences of the "aid" received under the Marshall Plan, however, were evaluated in the official U. S. documents as follows: "The hinterland was rapidly opened up; agricultural output expanded remarkably, savings rose, industrial and commercial expansion quickened, and the national income increased some 40% - all this in an economy moving from statism toward a relatively free-enterprise structure."[64]

Before preceeding to evaluate the Turkish experience with developmental "aid" programmes, it is interesting to note that the process of integration of Turkey with the western world seemed to begin as a consequence of the willingness of the Turkish official circles of the day. The very evidence of this might be found in the fact that the comprehensive Economic Development Plan of 1947 of Turkey (Vaner Plan) was easily transformed into a single implementation programme in view of the discontentedness of the U. S. officials about it.[65]

Along with the termination of the Marshall Plan, the Turkish development efforts intensified on the national level, although it was relatively late in this respect compared with the newly-emerging nations of Asia and Africa. As a consequence of the process of Turkey's integration with the western world, which was initiated by the Marshall Plan, Turkey primarily relied upon western "aid" and could not get much benefit from the international solidarity among

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(64) H. B. Price, op. cit., p.273.

(65) See İ. Tekeli and S. İlkin, Savaş Sonrası Ortamında 1947 Türkiye İktisadi Kalkınma Planı, Middle East Technical University Publication, Ankara, 1974, pp.13-14.

LDCs. As the western "aid" enriched with respect to volume, source, form, and channel, new options emerged for Turkey to finance her development efforts.

The main reason for necessities of foreign resources for Turkey in the early years of developmental "aid" was to meet the financial needs for infra-structure projects which appeared inadequate for economic progress. It has often been claimed that IBRD credits proved to be well-suited to development objectives of LDCs. However, because of the unexpected break off of the relations between IBRD and Turkey in the early 1950s, Turkey had limited access to IBRD credits in the 1950s and the 1960s.[66] Consequently it relied primarily on IMF and EMA loans. The short-term nature of these loans compared to IBRD loans led an early and rapid increase in Turkey's indebtedness during the 1950s.[67]

The agricultural expansion and the liberal trade policy adopted in the early 1950s suffered an early set back due to the liquidation of U. S. cotton and grain stocks after the Korean War. The resulting decline in the prices of these products on the international market led the Turkish government to cut back the credits extended to the agricultural sector.

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(66) See, Yalçın Doğan, <u>IMF Kıskacında Türkiye</u>, Toplum Yayınevi, Ankara, 1980, p.71.

(67) See, Cem Alpar, "Dış Borç Sorunu: Az Gelişmiş Ülkeler ve Türkiye Yönünden Bir Değerlendirme," <u>Ekonomik Yaklaşım</u>, Vol. 1, No. 3, 1980 Winter, pp.170-77.

As a result of these international and domestic developments, Turkish agricultural exports tended to decline from 1954 on during the early 1950s, while imports were rising quite rapidly. This, in turn, led to the first moves toward restricting international transactions.

Despite the increasing surcharges and tighter controls, adverse conditions in the external sector during the second half of the 1950s together with conditions approaching hyper inflation in the domestic economy, the decline in the growth rate of output and the urgent need for infra-structure investments intensified the dependence on foreign resources, weakening at the same time Turkey's bargaining power in "aid" negotiations. This process resulted in almost continuous deterioration of the Turkish balance-of-payments situation and increased the short-term international indebtedness of Turkey to such an extent that the Central Bank was unable to cover its immediate debt-servicing obligations in the summer of 1958.[68] Finally, after the announcement of Moratorium the Turkish government conceded to the Stabilization Program of 1958 as a condition for debt restructuring and the consolidation of arrears in line with views of IMF, OEEC, and the U. S.

The short period of relief from foreign payments, which was made possible through the rise in export earnings and the increased volume of credits as a consequence of the

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(68) See Anne O. Krueger, Foreign Trade Regimes and Economic Development: Turkey, Columbia University Press, New York, 1974, p.21.

Stabilization Program, marked an atmosphere of relatively little strain in the BoPs. However, export (and other foreign exchange) earnings and import requirements were underestimated, while the likely magnitude of foreign "aid" was overestimated in the First Five Year Plan. Thus a period of foreign exchange shortage immediately followed. In fact, one of the fundamental objectives of the 5 Year Plans was to gradually decline the dependence of the Turkish development effort on exceptional external finance such as foreign "aid". It was counted upon to cover the gaps between investment and savings projected for the early years of the 15-year period in the First and Second 5 Year Plans.[69]

The structural shifts the planners were attempting to effect such as a higher rate of capital formation, more import-substitution led to sharp increases in import demand particularly during the second half of the 1960s. Until the devaluation in 1970, Turkey lived a series of increasingly severe payments difficulties and consequent restrictive regimes with small breathing spaces.[70]

The early 1970s saw both positive and an adverse developments. Workers' remittances, encouraged by special premia, began to play a large and significant role in foreign exchange earnings, while oil prices were rising significantly increasing the prices of developed countries' export products.

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(69) See, <u>Ibid.</u>, p.121.

(70) See, <u>Ibid.</u>, p.24.

Turkey's history of past indebtedness had led to the formation of a Consortium in 1963 coincident with the start of the FFYP under the aegis of the OECD to coordinate the contributions of all donors to the Turkish development effort. Financing of the FFYP and the SFYP was realized by the foreign "aid" the preponderance of which has come through the Consortium. The establishment of this Consortium had also marked orientation of Turkey toward multilateral channels particularly after 1960 in line with the general pattern of western "aid" practice. However, Turkey has mainly relied on the short-term multilateral foreign exchange inflows such as IMF, EMA, and foreign private bank credits for approximately 30 years. This situation led to a chaotic indebtedness and severe payments difficulties particularly in recent years. Increasing rates of interest, and shortening maturities and grace periods also affected her payments situation adversely. Consequently, today Turkey has began to borrow for the repayment of her accumulated debts.

Thus throughout the planned period Turkey primarily resorted to developmental "aid" for 2 reasons, to close its trade gap, and for debt repayment. Neither the rising share of industry (mostly specialized in consumer goods) in GNP during the last two decades[71] nor the consequent increase in industrial exports in the last decade[72] reduced the demand

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(71) See, Dünya, 5.11.1981, p.1

(72) See, Türkiye Ekonomisinin 50 Yılı, İİTİA Yayını, İstanbul, 1973, p.262.

for foreign resources. However, the role of workers' remittances in closing the Turkish trade gap has been considerable during the last decade, although it could not be regarded as a stable source of foreign exchange. And yet this could not radically alter the Turkey's dependence on foreign resources. This is mainly due to the dependence of the Turkish industry on petroleum[73], intermediate plus capital goods imports[74], and deterioration in the external terms of trade in general for Turkey.[75]

The table below summarizes the evolution of Turkey's experience with foreign "aid":

SUMMARY TABLE
(in billion $s)

Period	Trade Deficit	Credits Received	Debt repayments (Principal and Interest)
1950-59	1,107	0,907	2,018
1960-69	2,030	1,435	2,723
1970-79	20,216	3,628	12,525

Source: 1979 Annual Economic Report of Ministry of Finance.

(73) See, Ministry of Commerce Statistics.

(74) See, Sevil Korum, "Sanayiinin Girdi Yoluyla Dışa Bağımlılığı," Sanayide Girdiler Sorunu, TMMOB Makine Mühendisleri Odası Yayını, 1976 Industry Congress documents, Ankara, 1977, pp.8-9.

(75) See, Necdet Serin, Dış Ticaret ve Dış Ticaret Politikası: 1923-73, SBF Yayını, Ankara, 1975, p.65.

CONCLUSION

1. In a modest attempt at integrating historical and logical aspects of economic reality in the context of post-war western economic "aid", the economic and political evolution of "aid" practice can be properly dealt with as a historically different but logically continuous 2-period process, namely the Marshall Plan, and the developmental "aid".

2. The Marshall Plan was conceived in the extraordinary post-war circumstances with a transfer of huge amount of public sources in the form of grants to a large extent under a definite plan for the first time in the world history except for war times. The concept of "foreign aid", which implies an economic and political meaning, owns its conception to this event. The Plan proved to be "successful" with respect to the rehabilitation of Western Europe and the short-term growth performances of the recipients. The factors underlying this phenomenal apparent result are favorable positions of the recipients in the international division of labor; the large volume of "aid" relative to that day's considerations; favorable economic atmosphere for recovery and growth which did not have any deficiency except for physical resources;

high priority fields to which "aid" was allocated; successful management of such investments (and contributions of technical "aid" in this respect); and "boom" after the war.

3. The inspirational role of the phenomenal apparent "success" of the Marshall Plan was remarkable in attributing a new role to "aid" practice in the age of development, which was characterized by growing aspirations and moulding efforts of LDCs, increasing role of international organizations operating in various fields, and intensification of theoretical studies on economic development in the western world. However, the situation was different in LDCs than Western Europe in the years of the Marshall Plan, for the development of LDCs is an enormously complex, difficult, and time-consuming process. The developmental "aid" flourished the western "aid" practice to a considerable extent introducing new sources, forms and channels to "aid" process. Since the consequences of the developmental "aid" on the recipients are a rather moot point, a severe dispute on this subject has appeared in the literature during the last two decades. Without reaching a definite conclusion, the debate on "aid" issues continues and becomes narrower in content.

4. The Marshall type of "aid" vanished completely in today's world, and the developmental "aid" has entered into a crisis in a very short time. This fact marks the rapid return to the financial lending practices of old days, whereas the awareness of the needs of LDCs contradictorily grow at

an accerelated rate.

5. The Turkish experience with post-war foreign "aid" provides an interesting case for students of western "aid" due to her involvement in both the Marshall Plan and developmental "aid" programs. In particular the Turkish case presents interesting possibilities for a comparative study of the consequences of "aid" for countries whose places in the international division of labor differ considerably, or for the discussion on the validity of Friedman-type of analogies.

APPENDICES

I. Industrial and Gross Agricultural Production in OEEC Countries (1947-52)

II. Wholesale Prices in Selected Countries (1949-52)

III. OEEC Countries' Over-all Balance of Payments On Current Account (1947-52)

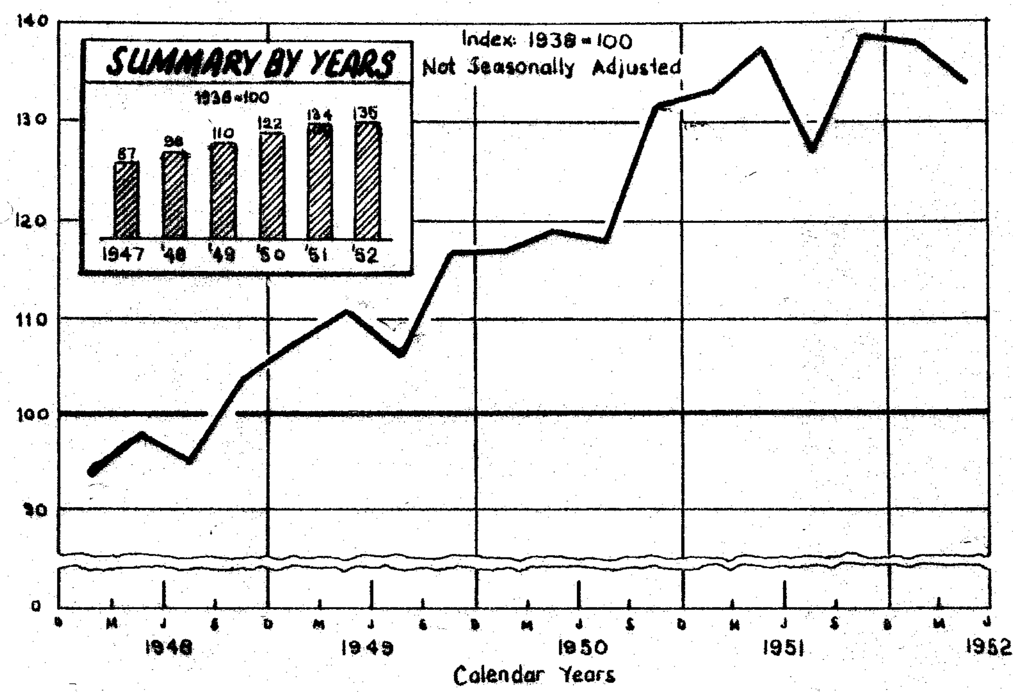
IV. Decadal Rates of Growth in the 1950's and From the Late 1930's to the Early 1960's, Total Product, Population, and Per Capita Product

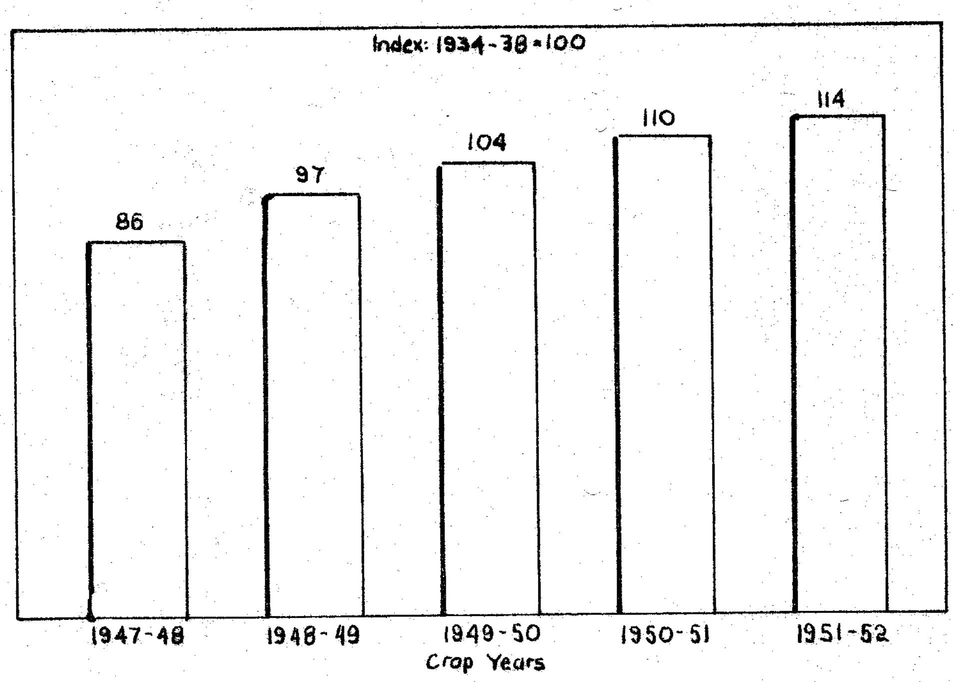
V. General Expansion of the World Economy, 1950-70

VI. (a) Population and Distribution of GDP in the World

(b) Structure of Exports and Distribution of International Reserves of Gold and Foreign Exchange

APPENDIX I

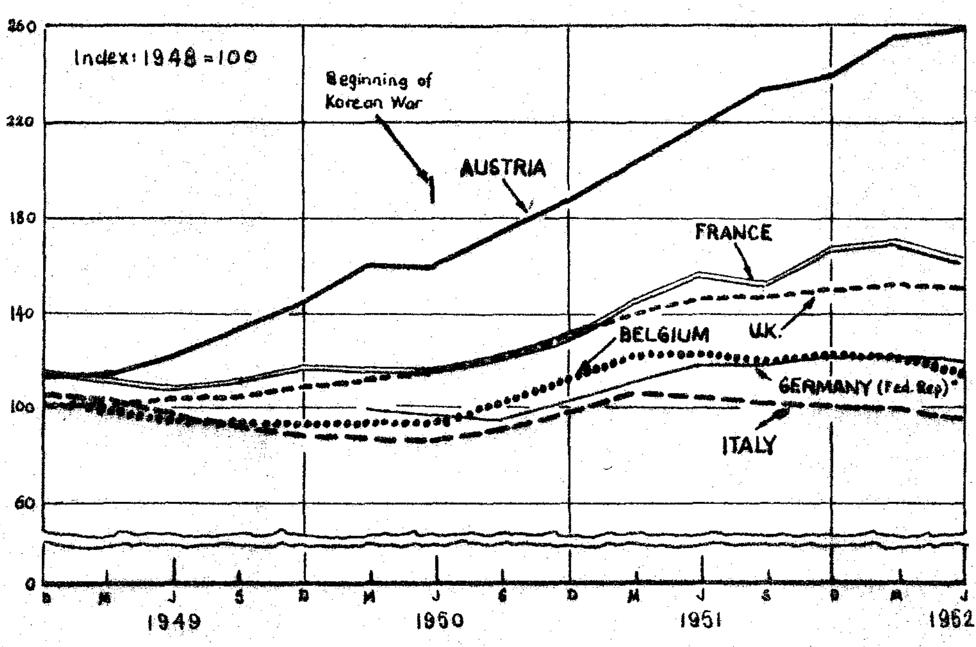




Production in OEEC countries. Upper: Industrial production.
Lower: Gross agricultural production.

Source: H. B. Price, The Marshall Plan and Its Meaning.

APPENDIX - II

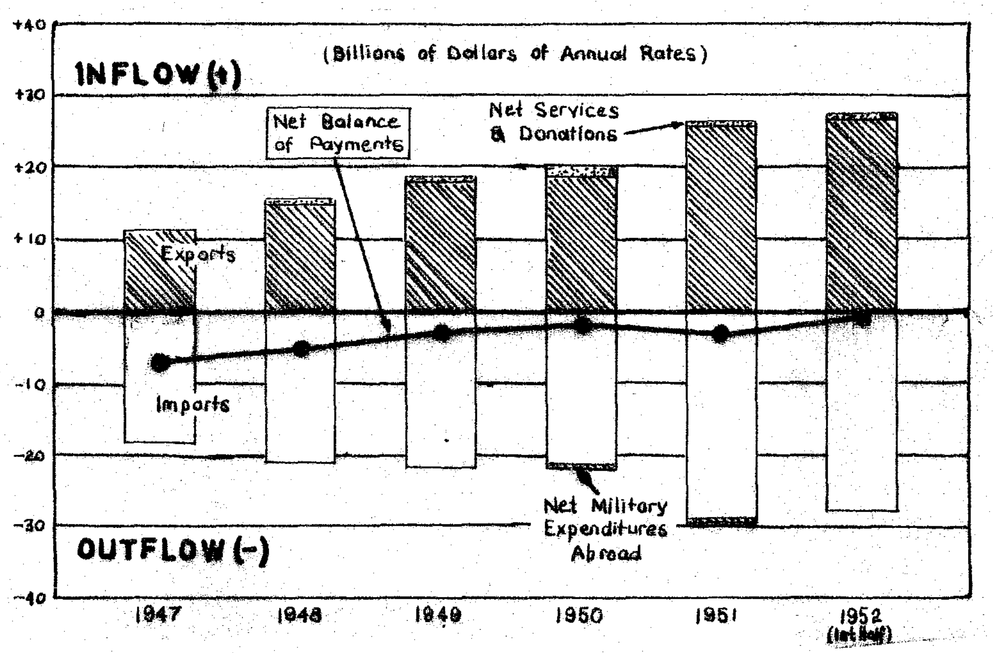


Wholesale prices in selected countries.

° Data for Germany not available prior to March 1950.

Source: H. B. Price, The Marshall Plan and Its Meaning.

APPENDIX - III



OEEC countries' over-all balance of payments a current account (excluding overseas territories and Switzerland).

Source: H. B. Price, The Marshall Plan and Its Meaning.

APPENDIX - IV

DECADAL RATES OF GROWTH IN THE 1950's AND FROM THE LATE 1930's TO THE EARLY 1960's, TOTAL PRODUCT, POPULATION AND PER CAPITA PRODUCT (%)

	The 1950's				Late 1930's to Early 1960's			
	Period (1)	Product (2)	Population (3)	Per capita product (4)	Period (5)	Product (6)	Population (7)	Per capita product (8)
	1. Non-Communist Developed Countries							
Belgium	1950-52 to 1960-62	34.3	5.8	26.9	1938 to 1960-62	24.5	4.1	19.6
Denmark	1950-52 to 1960-62	45.8	7.3	35.9	1939 to 1960-62	32.6	9.2	21.4
Finland	1950-52 to 1960-62	58.9	10.4	43.9	1938 to 1960-62	36.6	9.1	25.2
France	1950-52 to 1960-62	55.1	9.3	41.9	1937 to 1960-62	27.2	4.7	21.5
Netherlands	1950-52 to 1960-62	60.2	13.4	41.3	1937 to 1960-62	37.0	13.5	20.7
Norway	1950-52 to 1960-62	43.2	9.6	30.7	1939 to 1960-62	35.5	9.6	23.6
United Kingdom	1950-52 to 1960-62	30.2	4.7	24.4	1937 to 1960-62	17.3	4.8	11.9
Austria	1950-52 to 1960-62	72.2	2.1	68.7	1938 to 1960-62	31.6	2.1	28.9
West Germany	1950-52 to 1960-62	102.6	11.7	81.4	1936 to 1960-62	47.1	14.9	28.0
Italy	1950-52 to 1960-62	78.2	5.8	68.4	1939 to 1960-62	38.0	6.4	29.7
Sweden	1950-52 to 1960-62	45.9	6.3	37.3	1939 to 1960-62	49.8	8.2	38.4
Switzerland	1950-52 to 1950-52	48.2	13.8	30.2	1938 to 1957-59	31.9	11.2	18.6

Source: Simon Kuznets, Postwar Economic Growth (Four Lectures)

APPENDIX - V

GENERAL EXPANSION OF THE WORLD ECONOMY, 1950-1970

(Indices of total volume for 1970:1950 = 100)

	Gross Domestic Product	Industrial Production	Exports	Direct Foreign Investment
World	270	280	285	-
North America	210	250	295	540[1]
South America	250	300	195	-
Europe	260	310	470	-
Soviet Union	435	700	740	-
Africa	-	-	305	-
Asia	325	820	440	-

1 United States only for 1950-68 at current prices. See CEPAL, Estudio Economico de America Latina, 1970, Vol. II Estudios Especiales, p.10 (Calculations based on various numbers of Survey of Current Business, Department of Commerce, U. S. A.)

Source: Anibal Pinto and Jan Knakal, "Centre-Periphery System Twenty Years Later".

APPENDIX - VI - (A)

POPULATION AND DISTRIBUTION OF GDP IN THE WORLD

Group of Countries	Number	Population[a] (millions)	Distribution of GDP (percent)[b]							
			Agriculture		Industry		Manufacturing		Services	
			1960	77	1960	77	1960	77	1960	77
Low Income Countries (weighted average)	37	1.193 (29.3 of the world total)	50	37	17	25	11	13	33	38
Middle Income Countries (w)	54	936 (23% of the world total)	22	15	32	36	22	24	46	49
Industrialized Countries (w)	18	661 (16.2 of the world total)	6	4	40	37	30	27	54	59

Source: World Development Report, 1979.

[a] pp.12 and 14.

[b] p.130.

APPENDIX - VI - (B)

STRUCTURE OF EXPORTS

	Period/Year	Developed Countries according to U.N. classification	Developing Countries according to U.N. classification
a) Annual average growth rate of total exports	1948-68	7.9	4.8
	1958-68	9.0	5.9
b) Share in world's total exports	1938	72	28
	1948	68	32
	1958	74	26
	1968	79	21
c) Intra-zonal trade as % of the pole's total exports	1948	64	29
	1968	76	20
d) Manufactures (chemical products, machinery, transport equipment and other manufactured goods according to SITC classification) as % of the pole's total exports	1955	64	13
	1968	74	22

Source: Anibal Pinto and Jan Knakal, "Centre-Periphery System Twenty Years Later," and World Development Report, 1979.

DISTRIBUTION OF INTERNATIONAL RESERVES OF GOLD AND FOREIGN EXCHANGE

Year	Developed Countries	Developing Countries
1949	85	15
1969	79	21

Source: Anibal Pinto and Jan Knakal, "Centre-Periphery System Twenty Years Later".

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