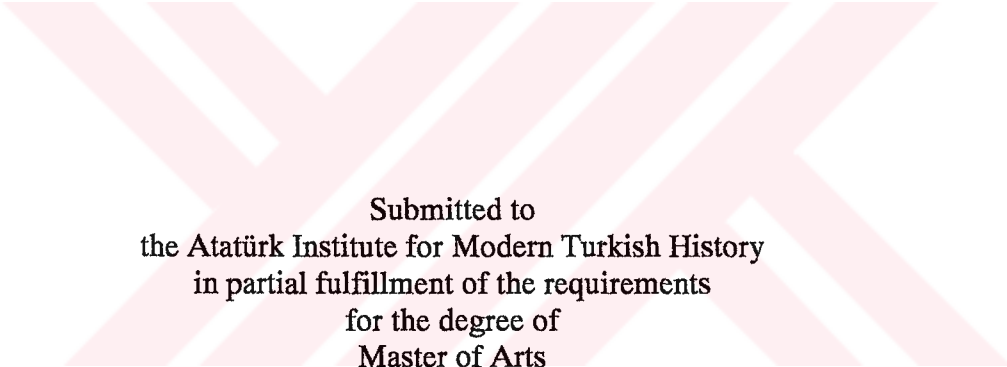


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TURKEY'S EXPERIENCE WITH PLANNING IN THE 1960s

by

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## ABSTRACT

### Turkey's Experience With Planning in the 1960s

This thesis tries to shed light on the broad relationship between state and economic change in Turkey by studying the institutional history of the State Planning Organization in the 1960s. The recent literature on the political economy of late industrialization is evaluated critically in order to explore the aforementioned relationship. A central theme of this literature is the significance of the presence of a key institution within the state apparatus combining centralization of economic decision-making process with the power to discipline private business activity for long-term industrial development. The foundation of the State Planning Organization by young-reformist officers after the military coup in 1960 represents an attempt for such an organizational design which was envisaged to be instrumental in the formation of a developmental coalition that would have sustained economic development. However, the course of the events in the 1960s, especially the resignation of early planners in 1962 and the formation of a special Incentive and Implementation Department inside the planning agency in 1967, would prove that the relationship between the State Planning Organization and private capital was determined by the requirements of short-term private capital accumulation. In this regard, it is argued that, the developmental state theories fail to come to terms with the Turkish experience since they put too much stress on the formation of state apparatus while neglecting the significance of social formation.

## ÖZET

### 1960'larda Türkiye'de Kalkınma Deneyimi

Bu tezde Devlet Planlama Teşkilatı'nın 1960'lı yıllardaki kurumsal tarihinden hareketle, devletle iktisadi kalkınma arasındaki ilişkiye ışık tutulmaya çalışıldı. Bu amaçla geç kalkınmanın ekonomi politikasına ilişkin literatürün eleştirel bir değerlendirmesi sunuldu. Bu literatürün önemli temalarından bir tanesi devlet içinde karar alma süreçlerinin merkezileştirilmesi ile özel sektör faaliyetlerinin disiplin altına alınmasını içeren bir kurumsallaşmanın uzun dönemli endüstriyel kalkınmanın önkoşulu olduğudur. Devlet Planlama Teşkilatının 1960 askeri müdahalesinden hemen sonra genç ve reformcu kadrolarla kurulması bu tip bir kurumsallaşma arayışının ürünüdür. Ancak 1962'de ilk kuşak planlıların istifası ve 1967'de Teşvik ve Uygulama Dairesi'nin kurulması ile devam eden gelişmeler planlama örgütü ile özel sektör arasındaki ilişkilerin kısa dönemli özel sermaye birikiminin ihtiyaçları gereğince biçimlendiğini göstermektedir. Özetle bu tezde, kalkınmacı devlet biçimi üzerine son dönemdeki literatürünün, bir yandan devlet formasyonuna ağırlık verirken toplumsal formasyonun önemini gözardı ettiği ölçüde, Türkiye deneyimini açıklamakta başarısız kaldığı iddia edilmektedir.

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## CHAPTER ONE

### THEORETICAL BACKGROUND

#### A Critical Evaluation of the New Institutionalism/State-Centered Approaches

A renewed interest in the state and state institutions as a central variable in explanations of social change and politics emerged during the late 1970s, thanks to the current, what is generally called, “second generation” of comparative historical sociology. Whatever the reasons may be for this “return of the state,” it has grown as a hegemonic approach in the social sciences for it was not only a narrow collection of challenges to the contemporary theoretical thinking in political science, but further claimed to be a particular ontological position and an epistemological perspective. By the end of the 1980s, it was no longer possible to allow the state to go unanalyzed, but there was still strong divergence among those who adopted the new institutionalist/state-centered approach. However, they all shared the Weberian concept of state in which the state is reduced to a set of institutions that rule over a determined territory. Working on this Weberian concept of the state, they present the latter as an autonomous entity whose actions are not determined by the forces in society. The distinctive powers of the state are said to donate it with the capacity to work on its own account.

The state-centred theorists argue that “state power” or “state autonomy” is not a fixed structured feature of any governmental system for “the very structural potentials for autonomous state actions change over time, as the

organizations of coercion and administration undergo transformations.”<sup>1</sup> Thus, instead of seeking to develop a general theory of the state, they emphasize the need for empirical research which would single out the historical particularities of the states concerned. It is recognized as important to identify the origins of the autonomous power of the state and the strategies that states can adopt to support their autonomy.<sup>2</sup> Thereby Marxist accounts of the state are accused of generalizing about the features and functions shared by all the states within a mode of production or a phase of capitalist accumulation, besides being simply society-centric and reductionist in the economic sense.

The argument that institutions can be treated as autonomous political actors is also a claim of institutional coherence, which is necessary in order to treat institutions as decision makers.<sup>3</sup> From this perspective, the state (or any other institution) should be pictured as making choice on the basis of some *collective* interests, intentions or expectations. This opens the door to the Weberian vision that the state’s ability to support markets and capitalist accumulation depends on the bureaucracy being a corporately coherent entity in which individuals see pursuing corporate goals as the best way to maximize their individual self-interest. Despite the fact that there is no unanimity among its adherents, a common presumption behind the new institutionalist approach seems to be a model of rational individual behaviour which takes for granted an individual with given purposes and preferences. As Hodgson puts it, “an initial

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<sup>1</sup> Theda Skocpol, “Bringing the State Back In: Strategies of Analysis in Current Research,” in Peter Evans et al. (eds.), *Bringing the State Back In* (Cambridge: Cambridge University Press, 1985), p. 14.

<sup>2</sup> Michael Mann, “The Autonomous Power of the State: Its Origins, Mechanisms and Results,” in *States, War and Capitalism* (Oxford: Blackwell Publishing, 1988).

<sup>3</sup> James March and Johan Olsen, “The New Institutionalism,” *The American Political Science Review* 78, no. 3 (1984), p. 738.

'state of nature' is assumed. The explanatory movement is from individuals to institutions, taking individuals as given."<sup>4</sup> Hodgson calls this explanatory approach "methodological individualism." The claim of coherence and autonomy leads the state-centered theorists to advance their study on the distinctive interests and intentions of state officials as opposed to other social forces.<sup>5</sup>

It was mentioned above that as it claims to be a particular ontological and epistemological perspective, the state-centred approach can embrace different theoretical and political positions. For instance, both the tradition of public choice theory which is associated with the new right thinking,<sup>6</sup> and various searches for a social democratic consensus in order to enhance economic development in Third World countries<sup>7</sup> seem to share the basic premises of the new institutionalist/neo statist approach.

Although the new institutionalist/state-centered approaches have been confronted with strong attacks, which will be summarized below, substantive research on states and state power has enjoyed explosive growth in recent years, especially in the field of the "new" political economy. The recent literature on the comparative political economy of late industrialization, growing especially in relation to the industrial transformation in East Asian NICs, makes the state a more central research object in understanding the path of economic development in the post-war context. The developmental success of effective

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<sup>4</sup> Geoffrey M. Hodgson, "Frontiers of Institutional Economics," *New Political Economy* 6, no.2 (July 2001), p.246.

<sup>5</sup> John Dearlove, "Bringing the Constitutions Back In: Political Science and the State," *Political Studies*, no. 27 (1989), p. 529.

<sup>6</sup> David Green, *The New Right* (London: Harvester- Wheatsheaf, 1987), p. 62.

<sup>7</sup> See Linda Weiss, "The Myth of Powerless State," *New Left Review*, no. 225 (1998).



state intervention in these economies in the direction of more dynamism and international competitiveness has led to the contention that the building up of the institutional mechanisms for long-term interaction between the state and social forces is a must for the emergence of an autonomous state facilitating economic and social change for industrial development.<sup>8</sup>

Chalmers Johnson's 1982 dated study *MITI and the Japanese Miracle* established the basic parameters and set the research agenda of a particular explanation of East Asian industrialization, known as the theory of the developmental state.<sup>9</sup> Johnson pioneered the concept of the "plan-rational capitalist developmental state."<sup>10</sup> This concept defines a particular combination of selective state interventionism and market economy. Three points put forth by Johnson are important for our purpose here. First, for Johnson, not the degree of interventionism, but its form is the distinguishing feature of the Japanese developmental state. "The issue is not one of state intervention in the economy. All states intervene in their economies for various reasons. The United States is a good example of a state in which the regulatory orientation predominates, whereas Japan is a good example of a state in which the developmental orientation predominates. A regulatory, or market rational, state concerns itself with the forms and procedures – the rules if you will – of competition, but it does not concern itself with substantive matters."<sup>11</sup>

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<sup>8</sup> See Bruce Cumings, "The Geneology of the Developmental State," in M. Woo-Cumings (ed.), *The Developmental State* (New York: Cornell University Press, 1999).

<sup>9</sup> Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy* (Stanford: Stanford University Press, 1982).

<sup>10</sup> See Meredith Woo-Cumings, "Chalmers Johnson and the Politics of Nationalism and Development," in Meredith Woo-Cumings (ed.), *The Developmental State* (Ithaca and London: Cornell University Press, 1999).

<sup>11</sup> Johnson, *MITI and the Japanese Miracle*, p. 19.

The aim of state interventionism, or state guidance, is to instill efficiency, dynamism and international competitiveness to the economy. The first priority of the state is economic growth. Concerns for regulation, welfare, or social justice may, if possible, only come second. The essence of interventionism is that the state creates or structures market incentives in order to achieve developmental goals. State intervention can also take the forms of “setting prices wrong” or the regulation of financial markets to reach investment targets in strategic sectors.

How does the developmental state prevent the creation of rent-seeking “distributional coalitions” that pressure the governments to direct resources to wasteful economic agents and away from their optimal use? The key to this question lies in the distinctive pattern of state-business relationships. A dichotomous zero sum relationship can not be the form adopted by developmental states.<sup>12</sup> On the contrary, a mutually beneficial relationship based on collaboration and closed institutionalized links as well as a shared growth-oriented project is a precondition for the system. Information exchange, reciprocity, credibility, and trust are the potential benefits of close relations. Yet in this relationship the state assumes the leading role. Öniş writes that “the discipline exercised over private business has assumed multitude forms. Through its industrial licensing policies the state has managed to limit the number of firms allowed to enter an industry. The policy has facilitated the realization of economies of scale but at the same time encouraged intense competition for market shares among the existing firms in the industry. Hence

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<sup>12</sup> Chalmers Johnson, “The Developmental State: Odyssey of a Concept,” in Woo-Cumings (ed.), p. 56.

the mixture of competition and cooperation was central to the success of industrial policy.”<sup>13</sup>

The third feature of “the plan-rational capitalist developmental state” relates to the conditions of collaboration and cooperation. What sustains the success of institutionalized state-business networks? Johnson’s answer to this question is the presence of a “small, inexpensive, but elite state bureaucracy staffed by the best managerial talent available in the system.”<sup>14</sup> The political and administrative system is regulated so as to give the bureaucracy sufficient opportunity to take initiative and operate effectively. In Japan, this bureaucracy is embodied in a pilot institution, namely the Ministry of International Trade and Industry (MITI). MITI is characterized, mainly, by its small size and internal coherence. MITI’s privileged status within the state stems from its indirect control of funds and its ability to define developmental performance criteria.

The economic success of Taiwan is evaluated from a similar perspective by developmental state studies. Three factors can be singled out that account for the success of state intervention in Taiwan.<sup>15</sup> First, a strong state that has a high degree of autonomy from both domestic and foreign actors, and the existence of a development-oriented economic technocracy. Second, the realization of a land reform between 1949 and 1953 which eliminated the social base of the landowner class who could call for compromise in state power, and which

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<sup>13</sup> Ziya Öniş, “The Logic of the Developmental State,” *Comparative Politics* 24, no: 1 (October 1991), p.113

<sup>14</sup> Johnson, “The Developmental State,” p. 38.

<sup>15</sup> See Alice H. Amsden, “The State and Taiwan’s Economic Development”, in Peter Evans et al. (eds.), *Bringing the State Back in*.

provided a labor force to industrial capital. Third, an export-led strategy pursued by both private and strong public sectors side by side.

The South Korean experience is another example of effective state intervention for economic development. Starting with the Park regime in 1961, the Korean state became concerned with the achievement of international competitiveness and catching up technologically with the industrial economies. In order to achieve these goals the Korean government extensively intervened in the economy and allocated the scarce capital to strategic, promising industries that would generate the highest growth. In 1961, soon after it came to power, the Park regime established a central planning board for economic planning and foreign capital management. Moreover, it nationalized all commercial banks to regulate the financial system. Thus it gained the ability to “divert the attention of Chaebols towards capital accumulation by closing of the options available for rent-seeking.”<sup>16</sup>

Korea had a strong ISI regime for target industries. Yet its protection and incentives system for infant sectors was of a selective nature. The discipline established over the business enabled subsidies and protection to remain less than elsewhere (for example, Latin America and Turkey) and more effective. In other words, the distinctive feature of the Korean state was its ability to manage the nature, duration and intensity of the ISI strategy

There is no doubt that the most efficient work in this area is that of Peter Evans. His contribution to the theory of developmental state cannot be denied. In order to grasp the variation in state involvement, Evans starts by constructing the ideal types of predatory and developmental states which correspond to

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<sup>16</sup> Öniş, “The Logic of Developmental State,” p. 114.

Mann's juxtaposition of despotic power and infrastructural power. Predatory states are those which have significant despotic powers. They lack the ability to prevent individual officers from pursuing their own interests. They also lack the networks connecting the state to civil society. In short, "predatory states are characterized by a dearth of bureaucracy as Weber defined it."<sup>17</sup>

The internal organization of the developmental states much more resembles a Weberian bureaucracy which gains corporate coherence through meritocratic recruitment and long-term career rewards. This corporate coherence gives it a certain degree of autonomy. However, according to Evans, the developmental state bureaucracy is not entirely insulated from society, as Weber suggested it to be. "On the contrary, they are embedded in a concrete set of social ties that binds the state to society and provides institutionalized channels for the continual negotiation and renegotiation of goals and policies."<sup>18</sup>

The central concept with which Evans elaborates to explain this variation is "embedded autonomy." The concept of embedded autonomy is introduced as a way of defining the development facilitating features of the South Korean developmental state vis-a-vis the counter ideal-type predatory Zaire. The state form in South Korea is autonomous as far as it has a rationalized bureaucracy that can not be instrumentally manipulated by rent-seeking interests. It is also embedded insofar as state elites are entrenched in social networks and relations that put them in close connections with dominant actors in civil society. Such a combination enables the state to have a real capacity to formulate long-term goals, acquire the necessary information and

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<sup>17</sup> Peter Evans, *Embedded Autonomy: States and Industrial Transformation* (Princeton: Princeton University Press, 1995), p. 26.

<sup>18</sup> Evans, p. 12.

feedback to pursue these goals. On the other end, the predatory state neither has a rational bureaucracy nor is embedded in social networks. State power is used in an arbitrary manner, largely in service of the self-interested state elites. Between the two poles, Evans cites Brazil and India as intermediary cases which are characterized by “low-degrees” of autonomy and embeddedness.

Linda Weiss’s notion of governed independence also refers to a negotiated relationship where both participants maintain their autonomy.<sup>19</sup> However, as Matt Davies points out, they both consider this relationship as governed by broader goals set by the state.<sup>20</sup>

As pointed above, the new institutionalist/state-centered approaches have been heavily criticized from various positions. Here we do not need to review all these objections for there are numerous criticisms that are not relevant for our purposes. Yet it is worth mentioning three of them that could address alternative approaches.

A main criticism that has been advanced against state centerism questions the political/ideological naivety of the approach. That is to say, as the state-centered approach shares with positivism the claim to be a value-free science, one may question whether empiricism as a methodological criterion rules out normative suggestions. In other words, conducting empirical research, asking “what actually exists” rather than “what ought to be” does not reveal an

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<sup>19</sup> Linda Weiss, *The Myth of Powerless State* (Ithaca and London: Cornell University Press, 1998), p.27.

<sup>20</sup> Matt Davies, “Book Review,” *Review of Radical Political Economics* 32, no.4 (November 2000), pp. 678-679.

academic study from taking an ideological/political position.<sup>21</sup> For example, the recent studies on the East Asian developmental states usually ignore the fact that none of these states are champions of democratic values or participatory forms of democracy. Set aside Japan, which has distinctive features and structural imperatives, Taiwan and Korea are characterized by authoritarian forms. Both the Park regime in Korea and the Kuomintang state in Taiwan have excluded organized labor and curtailed other popular groups.

A second attack questions the separation made between the state and society, which is the most fundamental theoretical fallacy of the state-centered/institutionalist approaches. Although the characterization of the modern state in terms of its distinctive capacities and its claim to a legitimate monopoly of coercion in a given territorial area has its own merits and may help to establish the distinctiveness of the state, as Bob Jessop argues, it must be “complemented by an understanding of the historical precondition of the modern state and the complexities of its subsequent articulation and interpenetration with other institutional orders and civil society. Otherwise they risk fetishizing and naturalizing the institutional separation between economic and political, the juridical distinction between public and private, the functional division of domestic and foreign policy, etc.”<sup>22</sup>

Similar objections to the state-centered approach are also found in Timothy Mitchell and Paul Cammack. Mitchell argues that in the state-centered approach, the state stands apart from society in an unproblematic way in which

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<sup>21</sup> Aylin Özman and Simten Coşar, “Siyasal Tahayyülde Devletin Belirleyiciliği: Metin Hepar Çalışmaları Üzerine Bir İnceleme,” *Doğu-Batı*, no.16 (2001), p. 94.

<sup>22</sup> Bob Jessop, *The Future of the Capitalist State* (Cambridge: Polity Press, 2002), p. 37.

the relation between them is thought to be one of externality.<sup>23</sup> Likewise, but from a Marxist viewpoint, Cammack claims that Skocpol and her successors tend to present state and society as separate polar sides, denying any explanatory power to classes and class struggle within the state, and that is the source of their inability to cope with the theoretical and empirical material they study.<sup>24</sup>

Third, the new institutionalist debate about the role of the state in capitalist development in terms of the predatory-developmental dichotomy uses a simplistic contrast between strong and weak states which are tested in terms of the presence of a coherent autonomous bureaucracy as a political actor.

Thus the new institutionalist/state-centered approach claims to present a perspective which is strongly opposed to that of classical individualistic political economy as the state comes to be the constraint for self-seeking agents in civil society and in the state apparatus. It concurs that policy initiatives originate within the state apparatus in the case of late development as institutional structures of these states, rather than those of the markets, provide the agenda for the choices made by competing interests. It is assumed that embeddedness combined with bureaucratic insulation is a must for the state to function like the Weberian rational ideal type in order to provide the formality essential for the functioning of the capitalist market. Here one can see the convergence between the new institutionalism and orientalism. Predatory states endowed with despotic powers lack an operational separation from the economy

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<sup>23</sup> Timothy Mitchell, "Society, Economy, and the State Effect," in George Steinmetz (ed.), *State/Culture: State Formation After the Cultural Turn* (Ithaca: Cornell University Press, 1990), pp. 82-83.

<sup>24</sup> Paul Cammack, "Bringing the State Back in?" *British Journal of Political Science* 19, no.2 (1998), pp. 264-265.



while the developmental states of East Asia and the protagonists of early industrialization in the West enjoyed the emergence of civil society as a separate domain.

This brief account of the objections to the institutionalist paradigm bring out the general implications of the structural-relational approach developed by the late Poulantzas and Jessop. This approach treats the state as a social relationship, which implies that an account of the state can only be developed as part of a theory of society. "If one posits the need to choose between the state and society as the independent variable in social analysis, one implies that both exist as independent entities which are fully constituted, internally coherent and mutually exclusive, and that the one always unilaterally determines the other."<sup>25</sup>

However defining the state as a social relationship does not mean that the it can fully be explained by examining other factors and social forces because it has no distinctive features. But it means that "the state is merely one structurally coupled part of social formation, it can never play the role expected of it."<sup>26</sup>

Thus state power or state capacity should be examined in the wider context of the complex set of social relations that extend beyond the state apparatus. As Jessop puts it, "while the constitutionalization and centralization of state power enable responsibility to be formally attributed to named officials and bodies, this should not lead us to fetishize the fixing of formal political responsibility at specific points and/or specific personages. We should always

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<sup>25</sup> Bob Jessop, *State Theory: Putting the Capitalist State in its Place* (London: Polity Press, 1990), p. 287.

<sup>26</sup> *Ibid.*, p.296.

seek to trace the circulation of power through wider and more complex sets of social relations both within or beyond the state.”<sup>27</sup>

Once we reject the ontological, or in Gramscian terms, the organic separation of the state and society, we cannot conceptualize the relations between state and economy as external relations.

### Inherent State-Centrism in Ottoman/Turkish Historiography

Ottoman/ Turkish historiography, whether expressed in terms of a Weberian terminology or a neo-Marxist problematics, is characterized by rejecting any explanatory primacy to social forces in producing social and economic change, and privileged the role of the state in explaining this change. Working on the Weberian dichotomy between Western and non-Western societies, the Ottoman political system is characterized by traditionalism and arbitrariness. Weberian analyses of patrimonialism are used to explain the exceptional role of the state which, through controlling the strategic positions within the society, sought to rule out any possibility of social and economic change.<sup>28</sup> It is claimed that this interconnectedness of the state and economy prevented the development of a bourgeoisie.<sup>29</sup> Taking for granted the separation of the political and economic as autonomous entities as the basis of the Western capitalist societies, the Ottoman /Turkish social formation is characterized as lacking this separation, since the state is depicted as the primary instrument of

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<sup>27</sup> Jessop, *The Future of the Capitalist State*, p. 41.

<sup>28</sup> Mehmet Genç, *Osmanlı İmparatorluğu'nda Devlet ve Ekonomi* (İstanbul: Ötügen Yayınları, 2000) p.48; Ahmet İnsel, *Düzen ve Kalkınma Kısacasında Türkiye* (İstanbul: Ayrıntı Yayınları, 1996) pp.57-58.

the appropriation of surplus. The state elites' position in the appropriation of surplus is assumed to have prevented not only the development of market relations, but also the formation of networks of civil society, thus hindering the implementation of policies through negotiation. It is assumed that although Turkey proceeded from being an etatist to a mixed economic regime, the state involvement cannot be categorized as negotiatory as there has been little reference to the "collaboration between political and societal actors."<sup>30</sup> Once the office holders or bureaucrats are pictured as the ruling elite, or even the ruling class, and the state is identified as the only locus of power, the politics become an arena of intra-elite conflict.<sup>31</sup> This dynamic role of the state and state elites at the expense of social forces is assumed to be a permanent feature of the social change. In this regard, a state tradition is said to exist as the dominant feature of Turkish politics.

This alleged tradition is characterized by the state elites' self-conception of their political power in an unrestricted way. Thus, a tradition of highly centralized, patrimonial state structure with the concomitant weakness of civil society is emphasized as the basis of the autonomous role of the state elites vis-a-vis social interests. According to Heper, this continuity is so strong that even the adoption of development as one of the state objectives "did not persuade the State elites of the necessity of forming organic links with civil society elements."<sup>32</sup> Thus a high degree of stateness is said to preclude the flourishing

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<sup>29</sup> See Şerif Mardin, *Türk Modernleşmesi* (İstanbul: İletişim Yayınları, 1997).

<sup>30</sup> Fikret Adaman and Zeynep Kadirbeyoğlu, "State Structures: Coercion versus Coordination: Some Lessons for Turkey," *New Perspectives on Turkey*, no. 20 (Spring 1999), p.151.

<sup>31</sup> Fatma Müge Göçek, *Burjuvazinin Yükselişi İmparatorluğun Çöküşü* (İstanbul: Ayraç Yayınları, 1999) pp.46-48.

of modern, western-type interest group politics. For Heper, Turkish polity differs from both pluralism and corporatism since the Turkish state is even unwilling to establish stable relationships with interest groups, let alone the participation of civil societal elements in government.<sup>33</sup> In Şerif Mardin's formulation, the absence of such a network of relations in the Ottoman/Turkish social formation, which had developed between the center and periphery in Western Europe since post-feudalism accounts for the organizational weakness, or the lack of penetrative strength, of the Ottoman/Turkish state.<sup>34</sup> To put it differently, from the perspective of the recent state-centered approaches discussed above, the lack of "embedded autonomy" of the Turkish state is held responsible for the failure of economic policies. Conversely, this is expressed as the lack of responsiveness of the policymaking process to the demands of the emerging bourgeoisie.<sup>35</sup>

The thesis of continuity in the state tradition is also prevalent in the state-centered explanations of business behaviour as intra-elite conflict over the distribution of surplus takes priority over the mechanisms of appropriation. It provides the basis for the thesis of continuity that characterized the state from empire to republican era, which is said to be the primary source of uncertainty in the economic life. According to Buğra, arbitrary formulation and implementation of economic policies, mostly directed by the pragmatic

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<sup>32</sup> Metin Heper, "The State and interest Groups with Special Reference to Turkey," in Metin Heper (ed.), *Strong State and Economic Interest Groups: The post-1980 Turkish Experience* (New York: Walter de Gruyter, 1991), p. 14.

<sup>33</sup> Ibid., p.17.

<sup>34</sup> Mardin, p.208.

<sup>35</sup> See Çağlar Keyder, *Memalik-i Osmaniye'den Avrupa Birliğine* (İstanbul: İletişim Yayınları, 2003).

concerns of the policymaking elites have created instabilities in the market, thus inhibiting the independent organization of the Turkish bourgeoisie apart from the state.<sup>36</sup> Consequently, the dependence of the Turkish entrepreneur class on the state rather than on markets is said to direct them to devote more attention to interacting with policymakers than to trying to exploit market opportunities. Thus the performance of the private enterprises is not tested by market criteria, but depends on their ability to gain access to state resources which creates a suitable environment for pervasive rent-seeking. In such a context, the task of political management becomes one of coalitional management as the state appears to have a central role in distributing these rents. In this model the state itself is reduced to a partner of the “distributional coalitions.”

The Ottoman/Turkish historiography insists on the recognition of the ontological distinctiveness of Turkish society, which in turn requires a particular epistemological position. From the theoretical discussion presented above, one may say that such an ontological/epistemological position can not fully grasp the complex relationships between the Turkish state and society. Rather than taking the state as its own vested interest group, the following analysis of the Turkish planned development trajectory will put the emphasis on the social content of its actions in order to overcome the state society dichotomy.

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<sup>36</sup> Ayşe Buğra, “Political Sources of Uncertainty in Business Life” in Heper (ed.), p.158.

## CHAPTER TWO

### TURKEY'S ADAPTATION EFFORTS TO THE POST-WORLD WAR II

#### ECONOMIC ORDER:

#### THE 1946-1960 PERIOD RECONSIDERED

In the aftermath of the Second World War, the international geo-political and economic environment brought onto the agenda of Turkish politics the question of the mode of articulation of the Turkish economy to the world economy. The Turkish policy makers as well as the business circles were well aware of the new opportunities opening up before the Turkish economy. As American technical experts and observers had guaranteed, Turkey would enjoy the favorable international climate as long as it could adopt a new strategy based on the conception of comparative advantages and redefine the boundaries between the public and private sector which was also essential to attracting foreign investment.

In effect, the liberalization of the foreign trade regime in 1946 was not much of an issue of policy option, but was an urgent measure for the policy makers of the time as the demand for the Turkish commodities from foreign markets radically decreased at the end of the war and the high priced Turkish goods, because of the war time demand, could not compete on the international market.<sup>37</sup> In addition Turkey lost its major partner in trade after the war,<sup>38</sup> and needed to establish

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<sup>37</sup> See the Finance Minister Keşmir's declaration in Bilsay Kuruç, *İktisat Politikasının Resmi Belgeleri*, (Ankara: AÜSBF Maliye Enstitüsü, 1963), p.96.

<sup>38</sup> In 1938 Germany sold to Turkey 47 % of her imports and received 43 % of her exports. However, after 1944 Germany's trade with Turkey almost eliminated. Max Weston Thornburg, *Turkey: An Economy in Transition* (New York: The Twentieth Century Fund, 1949), p.172.

multilateral trade relations for a quick recovery. Therefore it should be not surprising to note that the first devaluation in this context was pursued by the “hard-line” statist Recep Peker government.

Another economic measure undertaken by the Peker government was the replacement of the 1946 Plan, which reflected the convictions of the *Kadro* members, with a new one prepared by the members of the Turkish Economy Foundation (*Türk Ekonomi Kurumu*) and the bureaucrats supporting private capital. While the 1946 Plan envisioned a self-dependent, public sector oriented development, the 1947 *Türkiye İktisadi Kalkınma Planı* (Economic Development Plan of Turkey), commonly known as the Vaner Plan, put more emphasis on the agricultural sector and the integration of Turkey into world economy.<sup>39</sup> The 1947 Plan remained unimplemented, but manifested clearly the decision taken by the RPP authorities to compete with the DP in leading a major change in the orientation of the economic policy.

In 1947 Marshall Plan aid was made available to Turkey. During the first years of the Plan a good part of the aid was directed towards investment in agriculture, as well as towards modernization, the expansion of some coal mining and electric projects, and the construction of some basic facilities like roads, dams and harbors.<sup>40</sup> A great emphasis has been put on the extension of the Marshall aid to Turkey in the studies of post-war Turkish economic history, not only because of its general economic and financial impact but also because of its influence on Turkish economic ideas and policy.

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<sup>39</sup> İlhan Tekeli and Selim İlkin, *Savaş Sonrası Ortamda 1947 Türkiye İktisadi Kalkınma Planı* (Ankara: ODTÜ İdari İlimler Fakültesi Yayınları, 1974).

The 1947 Convention of the Republican People's Party is commonly perceived as a crucial moment at which the general trend of thought on the economic role of the state was reflected. The Convention agreed to amend the principle of etatism in its program by limiting its scope in favor of private capital. The RPP accepted the Democrat thesis that the state activity should be confined to the fields in which public utility was on the front and in operations which provided no profit for private capital.<sup>41</sup>

1947 also witnessed the first encouragement law of foreign direct investment. According to this law, the earnings of the foreign corporations in Turkey, which previously had been held in blocked accounts, could be deblocked with the export of certain commodities.<sup>42</sup> Amendments to the law were to be made in 1950 and 1951 which permitted the Ministry of Finance to guarantee the transfer of the profits, interest and capital of foreign investors. However, by 1954, the realized foreign direct investment remained so far below the expectations that the Democrat Party government had to enact a new law, which provided a full liberation of the transfer conditions of the foreign capital.<sup>43</sup> The DP also abolished the restrictions on the entrance of foreign investment into particular areas of economic activity. Despite the positive encouragement of investment by private foreign companies, between 1951 and 1958, foreign investments in Turkey totaled 56.5 million TL, a modest amount relative to the needs of the economy.

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<sup>40</sup> Osman Okyar, "Industrialization in Turkey," *The Middle Eastern Affairs*, no.6-7, (June-July 1953), p. 212.

<sup>41</sup> Kemal H. Karpat, *Turkey's Politics* (Princeton: Princeton University Press, 1959), pp. 302-303.

<sup>42</sup> Robert W. Kerwin, "Private Enterprise in Turkish Industrial Development," *Middle East Journal* 5, no.1 (1951), p. 24.

<sup>43</sup> See Zvi Y. Hershlag, *Turkey: An Economy in Transition* (The Hague: Van Keulen, 1958).



The reason for the low level of foreign direct investment is a much debated issue in Turkish economic history. A common explanation for this is the presence of a rooted bureaucratic tradition which competed against the market forces.<sup>44</sup> A similar argument puts more emphasis on the sense of insecurity and lack of confidence shaping state-business relations in Turkey. It suggests that, “the fundamental uncertainty about the future of the private enterprise system dominated the uncertainty induced by the arbitrary policy changes of the government(s) in power.”<sup>45</sup> However, as James Morris noted in 1960, it would be more accurate to search for an explanation of this reluctance to invest in the structural conditions of the Turkish economy, namely in the marketing problems and foreign exchange constraints.<sup>46</sup>

It is interesting to note that, “the sense of insecurity and inconfidence” thesis, which claim to explain state-business relations in Turkey, goes back to the late 1940s. Munis Tekinalp, writing in 1949, summarized some of the statements of this argument in circulation and called them nonsense cliches. According to Tekinalp, such views had no basis in the institutional and policy orientation in modern Turkey.<sup>47</sup> Therefore, it would be more appropriate to consider such arguments as

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<sup>44</sup> Çağlar Keyder, “Türkiye Demokrasisinin Ekonomi Politığı,” In Irvin Cemil Schick and Ertuğrul Ahmet Tonak (eds.), *Geçiş Sürecinde Türkiye* (İstanbul: Belge Yayınları, 1998), p.60.

<sup>45</sup> See Ayşe Buğra, *State and Business in Turkey: A Comparative Study*, (New York: State University of New York Press, 1994), p.130.

<sup>46</sup> James Morris, “Recent Problems of Economic Development in Turkey,” *The Middle East Journal* 14, no.1 (Winter 1960), p.7.

<sup>47</sup> Tekin Alp “Yabancı Sermaye Neden Türkiye’ye Can Atmıyor?,” *Türkiye İktisat Mecmuası* 2, no.22, (December 1949), pp.14-15. However, Tekinalp did not put any alternative explanations. That is probably because he was writing in an early date when the optimism about the foreign private capital inflow was still strong.

discursive constructions reflecting the struggles on the political arena.<sup>48</sup> To elaborate this point, the post-war discussions around “etatism-liberalism,” are a good starting point for studying the economic politics of the 1950s.

Etatism had never been an economic doctrine in the Turkish case, but rather a pragmatic policy, which was opted for under the conditions of the 1929 economic crisis. It was neither articulated as a replacement of private initiative, nor implemented as to compete with the private sector.<sup>49</sup> Therefore the reconsideration of this policy under the conditions of economic integration was quite reasonable. However, after the foundation of the Democrat Party in 1946, the discussions on the role of the state in the economy took on a different tone. The DP strongly criticized the RPP for showing little respect for private entrepreneurship. The wartime economic measures, especially the National Protection Law and the Wealth Levy, provided the basis for the reconstruction of the relationship between state and business as one of hostility under the RPP rule.<sup>50</sup> This construction of the state business relations was part of a broader construction according to which the state, dominated by state officials, and society remained distinct entities. Accordingly, the state was blind to the needs and demands of society and the individuals in turn did not assume any responsibility for the state. Yet this binary system was anachronistic in the conditions of the changing world. The DP promised to put an end to this alleged separation between state and society on the grounds of closer cooperation and

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<sup>48</sup> Galip L Yalman, “Hegemonya Projeleri Olarak Devletçilik, Kalkınmacılık ve Piyasa,” In E. Fuat Keyman (ed.), *Liberalizm, Devlet, Hegemonya* (İstanbul: Everest Yayınları, 2002), p. 323.

<sup>49</sup> For an account of Turkish Etatism, see Korkut Boratav, *Türkiye’de Devletçilik* (İstanbul: Gerçek Yayınevi, 1974).

<sup>50</sup> Nevertheless, Erdoğan Soral’s study clearly shows that the Second World War period was one of accelerated private capital accumulation. Erdoğan Soral, *Özel Kesimde Türk Mütessesbileri* (Ankara: İTİA Yayınları, 1974), p.30. For different surveys confirming Soral’s statements, see Buğra, *State and Business*, pp. 52-54.

mutual understanding.<sup>51</sup> The Democrats elaborated this discourse in the 1946-1950 period and managed to gain the support of different factions of the bourgeoisie and the big landowners.

Therefore it would be misleading to depict the late 1940s as a break in the formation of the Turkish bourgeoisie “asking for liberalization from the fetters of etatist policies.”<sup>52</sup> More precisely, the real agenda of the economy politics in the late 1940s was not set on the axis of liberalism-etatism.

The Economic Congress held in İstanbul in 1948 made it clear that the bourgeoisie had no intention of abandoning etatism. The Congress dealt extensively in its committees with the future principles of the “new etatism” in order to adjust it to the prevailing conditions. The Congress was organized under the initiation of the İstanbul Merchants Association (*İstanbul Tüccar Derneği*) and with the participation of the İstanbul Chamber of Industry and Commerce, the Turkish Economists Association, the Turkish Economy Foundation, and the İstanbul District Industrial Association. Although it was the second national economic congress held twenty-five years after the İzmir Economic Congress, it has so far been neglected.<sup>53</sup> Thus a congress held in İzmir in November 1981 was named the Second Economic Congress of Turkey. However the 1948 Congress was very important, not only because “it expressed more distinctly the new views of the middle class on

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<sup>51</sup> *Türkiye İktisat Mecmuası* 1, no.3, (March-April 1948), pp. 46-49.

<sup>52</sup> Çağlar Keyder, “The Agrarian Background and the Origins of the Turkish Bourgeoisie,” in Ayşe Öncü, Çağlar Keyder and Saad Eddin İbrahim (eds.), *Developmentalism and Beyond: Society and Politics in Egypt and Turkey* (Cairo: The American University in Cairo Press, 1994), p.59.

<sup>53</sup> Zafer Toprak, “Unutulan Kongre: 1948 Türkiye İktisat Kongresi,” *İktisat Dergisi*, no.211-212 (June-July 1982), p. 37. For an assessment of the discussions around etatism in the Congress, see also Mehmet Türkay, “1948 İktisat Kongresi: Yanlış Bir Tartışma; ‘Devletçilik-Liberalizm’,” *Marmara Üniversitesi İİBF Dergisi* 10, no.1-2, (1994).

statism,”<sup>54</sup> but also, for the purpose of this chapter, it indicates that the representatives of the business community had no intention of breaking the ties with the state.

The reports presented to the Etatism Committee and discussed extensively in the plenary sessions shared the common feature of criticizing the etatist practice of the one-party era and calling for a considerable degree of privatization and the functioning of the remaining state enterprises in accordance with the market precepts. Along with this shared theme, the reports presented by Ahmet Hamdi Bařar and Feridun Ergin attract attention as they both brought the issue within the broader context of capitalism-state-democracy relations. Bařar argued that the issue under discussion should not be perceived on the liberalism-etatism axis. Bařar was persisting with the idea of “economic etatism” as against “administrative etatism” or “state capitalism,” which he believed constituted the major impediment to economic and social development.<sup>55</sup> Accordingly, the question for Bařar was not simply the boundaries between the state and private economic activities, but actually the restructuring of etatism and interventionism. For Bařar, the boundaries between the state and private activities were historically constructed and so can not be fixed. In particular he demanded the formation of a central planning agency together with an economic council comprising the representatives of the business community and experts, which would assist and guide the state in establishing the principles of economic policies. His views were also reflected in the final report voted in the congress as follows:

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<sup>54</sup> Karpat, p.297.

<sup>55</sup> Ahmet Hamdi Bařar, “Devletçilik ve Devlet Mtdahalesi,” *1948 İktisat Kongresi Teblięleri*, available online at <http://ekutup.dpt.org.tr>

The problem of planning: the third principle of the New Etatism consists of the task of planning. To evolve a plan in order to ensure economic reconstruction is the foremost duty of the state as opposed to the free economy.

The fourth power:

The fourth principle of Etatism is also (its) fourth power. This power is needed to entrust the organs of the administrative and executive authorities with the execution (of tasks) in such a form as will take advantage of the available forces and possibilities by means of an advantageous and centralising system of coordination; this should be done by specially selected and independent authorities, consisting of experts chosen for their knowledge and specialization, who draw their powers and inspiration directly from the Constitution.<sup>56</sup>

As has been argued, according to Başar, the economic activities of the state could not be confined to supervision. At this point Başar distinguished clearly the late developing countries (LDCs) from the Western world. In the Western countries the burden of industrialization could be externalized through the exploitation of the colonial markets. For this reason, industrialization in the Western case had also enriched the peasants and the workers. Yet in the LDCs, the economic development was based on the heavy exploitation of these lower classes, which would bring the so-called “social question” to the fore and would threaten the social unity. Consequently, in the industrialization movements based on exploitation of the internal markets, the surplus value produced could not be perceived as the legitimate right of the capitalist. A significant part of the surplus should be appropriated by the state, representing the entire community. It is interesting that Başar and the representatives of the business community present at the Congress did not see any conflict with these opinions and the idea of “individualist-democratic etatism.”

The Committee on Foreign Trade recommended measures which would raise the quality of production and stimulate exports “even to the detriment of internal

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<sup>56</sup> Quoted in Heshlag, p. 185.

consumption.”<sup>57</sup> It also emphasized that all export restrictions should be abolished while foreign goods entering the country should be submitted to high tariffs so as to protect the local markets.

Başar and his colleagues elaborated their ideas on the foreign trade regime of Turkey in the pages of the Journal of Turkish Economy (*Türkiye İktisat Mecmuası*), the publishing organ of the İstanbul Merchants Association. The Foreign Trade Commission of the Association published a report on the principles of foreign trade in December 1947 and the Journal of Turkish Economy prepared a special issue on the point in February 1948. It is interesting to note that the İstanbul Merchants Association was critical of the 7 September 1946 measures taken to liberalise the foreign trade regime, not because it was in favor of strict protectionism, but rather because it believed that the unrestricted trade regime would further deteriorate the balance of payments of the country, which in turn would be detrimental for developing the productive capacity of the economy.<sup>58</sup> The Merchants Association was also more cautious about the recommendations of the United States and World Bank which were in favour a strategy based on the principle of comparative advantage.

As noted above, the extension of the Marshall Aid to Turkey in 1948 marked a dramatic change in opinions of both the policy-makers and the business circles. In fact the Marshall Plan and the economic and military aid received by Turkey after 1948 did turn out to be important channels for the flow of credits as well as needed agricultural machinery. Together with the favorable terms of trade for Turkish export

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<sup>57</sup> “1948 İktisat Kongresinin Dış Ticaret Hakkındaki Rapor ve Kararı,” *1948 Türkiye İktisat Kongresince Kabul edilen Rapor ve Kararlar*, available online at <http://ekutup.dpt.org.tr>.

goods after 1948, increasing foreign credits relaxed the widely shared concerns of the Merchant Association about the future of the growing balance of payments deficits.

Moreover, Turkey entered a period of high growth rates, which became more significant after 1948. Between 1947 and 1953, the GNP increased by an average rate of 8.7 percent.<sup>59</sup> On many occasions, the main task of Marshall Aid to Turkey was defined as that of increasing the agricultural production capacity and the supply of food and raw material to the OEEC countries. As a matter of fact, significant steps were taken after 1948 to improve the infrastructural capacity of the Turkish agriculture. Especially after 1950, the DP made agriculture the cornerstone of its policy and used a significant part of the foreign aid to finance the importation of agricultural machinery. Tractor use increased from 1,750 in 1948 to 31,415 in 1952 and reached 44,144 by 1957.<sup>60</sup>

On the other hand, Turkey managed to evade the pressures of the U.S. administration and used a significant part of the funds for fairly diversified purposes. Imports of industrial implements and raw materials, investments in mines, ports and harbours, the construction of railways and roads, the development of the fish and meat industries, and also imports of finished consumer goods were some of the priorities. According to an estimation quoted by Herslag, American aid paid for half of the increase in imports during the late 1940s and early 1950s, and for approximately forty percent of the increase in investment.<sup>61</sup> In other words, Turkey

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<sup>58</sup> "Dış Ticaret," *Türkiye İktisat Mecmuası*, no.2 (February 1948).

<sup>59</sup> Roger Owen and Şevket Pamuk, *A History of Middle East Economies in the Twentieth Century* (London: I. B. Tauris, 1998), p. 107.

<sup>60</sup> Feroz Ahmad, *The Turkish Experiment in Democracy, 1950-1975* (London: Westview Press, 1977), p. 135.

<sup>61</sup> Herslag, p.204.

was able to resist the role assigned to it in the new international role and spared significant effort for industrial development.

Although the growth of the agricultural sector was more impressive, there were significant improvements in industry throughout the late 1940s and 1950s. The setting up of the Industrial Development Bank of Turkey (*Türk Sanayi ve Kalkınma Bankası*), IDBT, was a huge step in the encouragement of private industry. The IDBT was formed in June 1950 by the RPP. The object of the bank was to support the establishment of new private enterprises, the expansion and modernization of existing private enterprises, and the extension of short term industrial credits. In addition, the bank participated in private industrial enterprises and promoted the investment of foreign capital in Turkish industry.<sup>62</sup> In its five years of operation, the IDBT extended credits to 293 private firms to the value of approximately 132 million liras. Many big firms established in this period obtained credit from the bank. Among the various branches of the industry, textiles took the lion's share with 50 million liras. Non-metallic minerals and food processing industries followed with respectively 29 million and 23 million liras.<sup>63</sup>

Finally, by the end of the decade, the IDBT had allowed 420 loans, which totaled an estimated 313 million liras.<sup>64</sup> Thereby, the loan applications at the bank increased at a rapid rate and the bank had to augment its resources to meet the growing demand for credit. As a result, many businessmen soon found themselves enjoying good

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<sup>62</sup> Okyar, "Industrialization in Turkey," p.215.

<sup>63</sup> Hershlag, p.244.

<sup>64</sup> Morris Singer, *The Economic Advance of Turkey, 1938-60* (Ankara: Turkish Economic Society Publications, 1977), p. 258.



profits, because of their production of commodities that had never been produced in Turkey before.

Another mechanism of promoting entrepreneurial activity was government contracts. As government investment increased in social overhead capital, the contracting firms made big profits. Among the big holding companies Alarko, Tekfen, Enka and Doğuş were some which benefited extensively from such business deals with the state.<sup>65</sup>

The golden years of 1948-1953 relieved the anxiety about the possible outcomes of unrestricted liberalization and uncoordinated economic policy. However, as will be discussed below, similar problems would come onto the policy agenda in the mid-1950s when the economy fell into the severe conditions of a balance of payments crisis.

The impressive economic development came to a dramatic end in 1954 when the declining demand for agricultural commodities undermined Turkey's short-lived momentum. After the end of the Korean War, international prices for primary goods started to decline and the weather conditions worsened. In 1954, agricultural output and exports decreased by fifteen percent. Moreover, the expansion of the arable lands as a result of mechanization reached its limits by the mid-1950s. After then, no one was expecting any further breakthroughs in agricultural output. On the other hand, it was seen that the several measures which were designed to stimulate private industry could not counter the decline that had occurred in agricultural output. Consequently, at the end of 1953 the country experienced a severe balance of payments crisis. In the

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<sup>65</sup> Buğra, *State and Business*, p.123.

period 1948 to 1953, the deficit in the balance of trade increased from \$78 million to \$147 million.<sup>66</sup>

By 1954 the Democrats decided to limit imports to essential commodities and raw materials, and to adopt an ISI strategy. The industrial sector received effective protection and encouragement to produce for the internal market as a consequence of high tariff rates accompanied by government restrictions on the import of certain consumer goods. The state also supported the local private industry by means of concentrating on the production of investment and intermediary goods to supply cheap inputs for the manufacturing sector. Thus protection, with the combination of inflation, served as a desirable policy to private industrial profits. Investment ratios in the private sector showed an average increase of 13.8 percent annually for the 1950-1959 period.<sup>67</sup> Therefore, one may argue that the leaps and bounds in the economy through the fifties did not negatively affect the pace of capital accumulation.

Despite the rapid increase in private investments, the private sector was still weak in the mid-'50s. Small enterprises, which produced light consumer goods and used simple means of production, dominated the manufacturing sector. The productivity level of private concerns remained far below that of the public enterprises.<sup>68</sup> Most of them were family owned and operated, and usually lacked the necessary know-how and managerial techniques.

Moreover the private manufacturers did not have much intention of investing in large plants, as they could still make large profits by producing light consumer goods in the conditions of protectionism and high inflation. Besides, small firms benefited

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<sup>66</sup> Morris, p. 9.

<sup>67</sup> Gürel Tüzün, "1950-60 Döneminde Sanayileşme," in Oya Baydar (ed.), *75 Yılda Çarklarda Çiplere* (İstanbul: Tarih Vakfı, 1999), p. 161.

from certain tax advantages. Consequently, the government had to initiate major manufacturing investments as well as significant social overhead investments in order to sustain the economic growth. Some of the social overhead investments were noted above. The largest investments in manufacturing were made in the sugar, textiles, cement, iron and steel industries and in electricity generation.

The 1950s witnessed a high rate of expansion in the production capacity of the sugar industry. For the entire period, the production of sugar grew 16.7% annually while the growth in consumption was 8.8%. As a result, the discrepancy between production and consumption increased as high as 54% of the total output in 1960. The sugar industry became the symbol of the industrial advance of Turkey during the decade. Yet, as Singer states, “it was undisciplined in its expansion and wasteful in its use of resources, and its progress was all too often politically inspired.”<sup>69</sup>

Another example of the uncoordinated investment policy of the government was the expansion of the cement industry. The government invested heavily in the industry during the late fifties, which resulted in overproduction and excess capacity. The location of these factories, which was usually decided on the basis of political concerns, also aggravated the problem. The establishment of a cement factory in Pınarhisar, in Thrace, was a clear example in that sense because there were very few cement consumers in the area and production costs were almost two times higher than the other plants in the industry.<sup>70</sup>

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<sup>68</sup> For a comparison of public and private industries, see Tüzün, pp.164-166.

<sup>69</sup> Singer, p.269.

<sup>70</sup> William Hale, *The Political and Economic Development of Modern Turkey* (London: Croom Helm, 1981), p.98.

A similar pattern was evident in the electricity generation sector. The government initiated a heavy program of construction of hydroelectric and thermoelectric power plants. The generation of electricity expanded more than two times between 1951 and 1955, and continued to increase steadily.<sup>71</sup> The electricity generation program of the government was criticized extensively on the grounds that some projects had been built in areas where demand was inadequate and that the resources which were mobilized could be used more profitably elsewhere.<sup>72</sup>

The outcome of all this government spending, financed through budget deficits and foreign grants, was inflation. High consumption pressures accompanied by low productivity caused a growing inflationary tendency after 1954. By 1958, the Turkish economy was under the pressure of rampant inflation and a huge foreign debt. As Simpson states, the inflation was both a demand pull and a cost push inflation. "The latter was caused by high inefficient government projects and the former by an expanding money supply that far surpassed gains in real consumption. For example, in 1957 the money supply went up at the rate of 26% while the real production increased by only 3.2%."<sup>73</sup>

The wholesale price index had registered an increase of only 7% between 1948 and 1953 (1948=100), but the index climbed to 148 in 1956 and reached 231 by 1959. The retail prices index of İstanbul followed a similar pattern and registered an increase of 125% between 1948 and 1959.<sup>74</sup> For the entire period, Central Bank

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<sup>71</sup> "Enerji Kaynakları," *Forum*, no.50 (15 August 1956).

<sup>72</sup> "Sarıyer Barajı ve Planlama," *Forum*, no .66, (15 December 1956).

<sup>73</sup> Dwight J. Simpson, "Development as a Process: The Menderes Phase in Turkey," *Middle East Journal* 19, (Spring 1965), p.146.

<sup>74</sup> Morris, p.8.

credit multiplied more than five times while those of the other banks increased about eight times.

The main sources of inflationary financing were the state economic enterprises (SEEs) and the Central Budget. From its early days, the DP government adopted a policy of subsidizing the private sector through interfering in the prices of the SEEs. After the mid-1950s, the government put more pressure on the price policy of the SEEs, allegedly because it was seeking to drop inflation. Controlled prices accompanied by high unit costs augmented the financial straits of the SEEs. This point is important because, as will be discussed in the next chapter, the early planners in the State Planning Organization would take the issue seriously and struggle for a SEE reform.

Here it should be noted that the business circles and the liberal intellectuals of the time entirely supported the adoption of the ISI strategy in 1954. Moreover, they both emphasized the need of a planning organ which would coordinate the public sector and assist the private sector in their investment decisions. Yet the consensus over the possible policies in this new phase of economic development marking the initial stages of ISI was short-lived. While Tekinalp and other writers of the *Journal of Turkish Economy* stated that the planning body should work with an economic council composed of selected businessmen, their representative organizations and experts,<sup>75</sup> the *Forum* columnists argued that the planning should be handled by a

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<sup>75</sup> Munis Tekinalp, "İktisadi Kalkınmamızda Plan Meselesi," *Türkiye İktisat Mecmuası* 8, no.80 (March 1955).

central planning organization composed of a small group of highly skilled technocrats.<sup>76</sup>

There was also a convergence of opinion about the main economic issues of the time and the scope of the ISI strategy. The İstanbul Merchants Association's perception of import substitution was confined to protectionism. They supported the growing government consumption and argued that the state should subsidize even more private investments. They argued that because the cause of inflation was excess demand, the measures should be taken to increase the production capacity of the industry in order to balance the demand with supply.<sup>77</sup> The Merchants Association opposed any suggestions that the economic growth should be slowed down in order to reduce the inflationary demand and the foreign trade deficits.<sup>78</sup>

It is evident that the business community until 1958 was content with the DP's economic policies. Although the reintroduction of the price control measures of the war time National Protection Law in 1956 was a source of unrest for importers,<sup>79</sup> the private sector in general did not perceive such measures as a threat to its well-being. That is mainly because, as noted above, the 1950s in general marked a significant increase in private sector investments.

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<sup>76</sup> See for an example Osman Okyar, "İktisadi Planın Hazırlanması Üzerine Düşünceler," *Forum* 4, no.37 (1 October 1955).

<sup>77</sup> Cahit İren, "Zorluklar Karşısında Tedbir Alırken," *Türkiye İktisat Mecmuası* 7, no. 72 (July 1954).

<sup>78</sup> Munis Tekinalp, "İktisadi İnkılap," *Türkiye İktisat Mecmuası* 7, no. 63 (October 1953).

<sup>79</sup> "Importers were subjected to strict antispeculative controls, and there was a wave of arrests for illegal stock building." Buğra, p.125.

Here the views of the *Forum* writers will be discussed briefly, for, as Toprak states, the journal was highly influential on the Turkish intelligentsia of the time and set the pace of developments that took place in the 1960s.<sup>80</sup>

The *Forum* columnists agreed with the Association on the demand pull nature of the inflation. However, their policy propositions were radically different. Aydın Yalçın wrote that the volume of inflationary excess demand reached 600 million Turkish Liras by 1955.<sup>81</sup> In addition, the investments recorded an increase of 62%, while the consumptions rose more rapidly, by 70%, during the period of 1948-1953. Yalçın argued that Turkey could no further increase investments due to the inadequate level of savings. Thus he stated, measures should be taken immediately to decrease the excess consumption. Yalçın also emphasized the need to proceed fully with the policy of the planned ISI in order to reduce the foreign trade deficits.<sup>82</sup>

Besim Üstünel went further and argued that a tax reform built on the expansion of the tax-base and the increase of direct taxes was badly needed in order to overcome budgetary straits.<sup>83</sup> The tax reform issue would come to the agenda of the SPO just after its establishment.

By 1954, the U.S. administration had become also less tolerate of Turkey's growing demand for foreign aid, and was less optimistic about Turkey's success in adaptation to the international economic system. This sharp turn in the U.S. foreign economic policy became more evident during prime minister Adnan Menderes's visit

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<sup>80</sup> Zafer Toprak, "Fikir Dergiciliğinin Yüzyılı (1884-1984)," *Türkiye'de Dergiler ve Ansiklopediler* (İstanbul, 1984).

<sup>81</sup> Aydın Yalçın, "Milli İktisadi Bütçe Anlayışı ve İktisadi Meselelerimiz," *Forum* 2, no.22 (15 February 1955).

<sup>82</sup> Aydın Yalçın, "İktisadi Gelişmemizin Özellikleri," *Forum* 2, no.23 (1 March 1955).

<sup>83</sup> Besim Üstünel, "İktisadi Kalkınmanın Yüklü," *Forum* 1, no.11, (1 September 1954).

to Washington in May-June 1954 to request increased U.S. aid. Instead, he received warnings to restrict imports and thereby restore economic stability.<sup>84</sup> From the mid-1950s, the U.S. put less emphasis on aid and more emphasis on tariffs and exchange controls to reduce the imports of luxuries and goods that could be produced locally. In effect, the U.S. policy makers hoped that a limited and temporary ISI program would stimulate foreign trade by securing new demand for U.S. capital goods. They also believed that a considerable degree of protectionism in the underdeveloped countries would provide favorable conditions for U.S. foreign direct investments.

The U.S. administration was also critical of the unplanned development efforts of Turkey on the grounds that they were very costly. In the same manner, the U.S. officials strongly opposed generous government consumption, namely the agricultural price support system and credit policies, which were considered inflationary. Inflation was weakening the stability of the Turkish Lira in the foreign exchange markets, which brought about a huge disparity between the free market and official values of the currency. A natural result of this situation was the flight of capital and the encouragement of speculative investments in various ways. The U.S. administration decided that devaluation was the best means of stabilizing the currency and restoring a healthy investment environment.<sup>85</sup>

However, the DP leaders strongly opposed both to the planned development and a stabilization program based on the devaluation of the currency. On many occasions, prime minister Menderes declared his dislike of any planning effort. For example, in 1953, he stated that “the Democrat Party’s ability to promote the countries economy

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<sup>84</sup> Sylvia Maxfield and James Nolt, “Protectionism and the Internationalization of Capital: US Sponsorship of Import Substitution Industrialization in the Philippines, Turkey and Argentina,” *International Studies Quarterly* 34, no.1 (March, 1990), p.70.



by any plan or project from above or making it an economy directed by some central office is essentially a negative ability.”<sup>86</sup>

As was stated above, the Democrats founded their strategy on the deficit financing capital accumulation. That is why the DP had no intention of altering its policy choice, despite the pressures from the U.S. for devaluation. Menderes declared in a speech in December 1955 his party’s view on the issue.

Any changes in the value of our money will mean the increase in the cost of capital to be invested in production in the country, the creation of an artificial pressure on prices in the domestic markets, the decrease of the value of national labor, the decrease of the purchasing power obtained through the sale of our products and our exports, an increase in the weights of our obligations to foreign countries and an increase of our burdens. Therefore we believe that the only result of devaluation and adjustments in the value of our money will be its adverse effects on our national economy, which is in a phase of rapid development and reconstruction, and on our national efforts for progress. It is obvious that in the economic and financial situation of our country there is absolutely no reason to force us to such operations.<sup>87</sup>

Yet the economic and financial situation of the country deteriorated further in 1958. By then, the foreign debt amounted to 850 million dollars while exports were stagnating at the level of approximately 300 million dollars a year. The government could no longer obtain international credit to counter the shortages of local and foreign goods. Thereby the government had to announce a new stabilization program, the main objective of which was to restore the balance between the total

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<sup>85</sup> Ibid., 73.

<sup>86</sup> Quoted in Namık Zeki Aral, “The Foreign Trade Plan,” *Türkiye İktisat Mecmuası* 6, no. 61 (August 1953).

<sup>87</sup> Simpson, p. 148.

supply and total demand. The OEEC granted new foreign credits amounting to 225 million dollars for assistance to carry through the stabilization program.<sup>88</sup>

The program included not only the devaluation of the currency, but also some contractionary monetary and fiscal policies, the liberalization of the import regime, consolidation of the external debt, and the establishment of a Ministerial Coordination Board, which was to draw up a long-term investment plan. The Board was thought to be an advisory organ for the government in deciding on the investment projects carried out in the public sector and coordinating the activities of various other ministries. However, the Board had no fixed frame of reference for promoting and selecting investment projects and, as Sönmez pointed out, “was instructed to give higher priority to the projects intended to improve the balance of payments and had to rely on an empirical project-by-project basis of selection.”<sup>89</sup>

It is understood that this single move of the democrats neither satisfied international organizations nor the opposition parties. The government initially invited Prof. Jan Tinbergen for the preparation of a development plan for Turkey. Prof. Tinbergen, with his assistant J. Koopman, started his studies for the plan in April 1959, approximately two months before the military takeover. On May 27, 1960, when the military seized power, the agreement was still in effect and Koopman was working on the preparation of the plan together with a group of Turkish experts

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<sup>88</sup> Osman Okyar, “The Turkish Stabilization Experiment- Before and After,” *Middle Eastern Affairs* 11, no. 8 (August-September 1960), p.243.

<sup>89</sup> Atilla Sönmez, “Re-Emmergence of the Idea of Planning”, in S. İlkin and E. İnanç (eds.), *Planning in Turkey* (Ankara: METU Publications, 1967), p. 32.

who had been designated to assist him. These young Turkish experts would become the founders of the SPO.



## CHAPTER THREE

### INSTITUTIONALIZATION OF PLANNING AND PATTERNS OF STATE ECONOMY RELATIONS IN THE 1960s

In the previous chapter, it was argued that Turkey managed to extend a significant effort for its industrial development throughout the late 1940s and 1950s against the role assigned to it by international economic agencies and at the expense of growing inflation and balance of payments difficulties. It was also discussed briefly that there was strong external and internal pressure upon the DP government to accept the need for the coordination of its development policies and a considerable degree of import substitution program as it became clear that economic growth could not be sustained with short-term expansionist policies. A wide range of consensus in this regard emerged from the late 1950s onwards, including the liberal opposition to the Menderes government, as the latter had the tendency to allocate scarce economic resources, foreign exchange in particular, to politically suitable activities, thus enhancing the impact of political patronage relationship among the business circles. However, this general consensus on the idea was not accompanied by any clear notion of what was implied exactly by planning or of what kind of plan was envisioned.

In this section, the different arguments among the policy makers and business circles about the purpose, scope, and authority of the plans in the 1960s as they

reflect the different interpretations of economic strategy in Turkey will be discussed. The period between May 1960 and 1963 is of crucial importance in that it witnessed the genesis of cleavages around the issues of the organization of a planning agency, its status within the economic apparatus of the state, and necessitated reforms in order to enhance economic development. Another period of significance starts with the 1965 elections, which brought the Justice Party (the political heirs to the Democrats) to power, involves the preparatory studies on the second five year plan, and extends to the 1971 devaluation program.

In 1960, the National Unity government inherited an economy plunged in a severe recession. The foreign debt amounted to 850 million dollars while the reserves of foreign exchange and gold were nearly zero. Export earnings were stagnated at the level of 300 million dollars a year and the annual growth rate declined to four percent, only slightly higher than the rate of increase in population. The economy was still experiencing the effects of the stabilization program introduced in 1958. The 1960 budget, which involved 7.8 billion liras of expenditures, was estimated to have a deficit of about one billion TL. Contrary to the requirements of the stabilization program, the State Economic Enterprises (SEEs) continued to manipulate inflationary means in order to finance both their excessively ambitious investment programs and even to finance their operation costs. In 1960, 4,965 big and medium sized projects were said to be under way. Under these circumstances, the general economic policy of the National Unity government was heavily deflationary. An immediate measure taken by the government was to make a reduction of over 500 million liras in the general budget.

It issued a total of 250 million TLs worth of bonds in the banks, and saved an additional one billion TL through reductions in the SEE expenditures.<sup>90</sup>

A number of additional measures were also taken to inspire business activity. The National Protection Law, which came into effect from 1956, was abrogated first. In addition, credit ceilings for industrial investments and exports were abolished.<sup>91</sup> However, several attempts to raise the tax revenues and to reform the tax structure, as the introduction of obligatory declaration of wealth annually and preparations for a tax reform, which will be discussed below, led to grievances raised by both business circles and agricultural interests.

Aside from these short-term measures, the new government had on the agenda the establishment of a planning agency responsible for the formulation of the overall development trajectory of the country. The urgency of the issue became more apparent after the negotiations with the international institutions.<sup>92</sup> The IMF and the OEEC were anxious about the future of the 1958 Stabilization Program and asking for the preparation of a plan as a precondition to any kind of foreign aid.<sup>93</sup> As a matter of fact, the new government gave first priority to the preparations for the establishment of a planning organization. Of the two draft bills presented to the Council of Ministers, the Orel Draft was accepted after long discussions and submitted to the approval of the National Unity Committee. The Committee

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<sup>90</sup> Ahmad, pp.268-269.

<sup>91</sup> Sönmez, p.37.

<sup>92</sup> "IMF ve OEEC ile Müzakereler," *Forum*, no. 151 (15 June 1960), p.149.

<sup>93</sup> Necat Erder, Atilla Karaosmanoğlu, Ayhan Çilingirlioğlu and Atilla Sönmez, *Planlı Kalkınma Serüveni* (İstanbul: İstanbul Bilgi Üniversitesi Yayınları, 2003), p.8.

accepted the draft and it was promulgated on 30 September 1960. In this part of the thesis, the alternative proposals will be considered briefly as they reflect the early signals of cleavage among the political and social sources.

### The Foundation of the State Planning Organization and its Early Days of Establishment

As noted above, Prof. Tinbergen and his assistant Koopman were working on the preparations of a plan together with a group of Turkish experts when the military seized power on May 27. After the coup d'etat, however, they altered their studies to outline an organization scheme for a planning agency. They presented the Memorandum on the Organization of a Central Planning Bureau to the NUC on June 22, 1960.<sup>94</sup> As Milor notes, this three page memorandum is important as it “set the tone of conflict and established its parameters.”<sup>95</sup> Tinbergen proposed the establishment of three principal organs. The Central Planning Bureau was conceived as an advisory agency to the government and would prepare the main documents for the meetings of the Advisory Planning Board and the Central Planning Commission. It was strongly recommended that the Bureau be separated from the executive agencies and “not to be charged with the execution of the plan or

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<sup>94</sup> For the full text of the Memorandum, see Cemal Mihçioğlu, “Devlet Planlama Örgütünün Kuruluş Günleri,” *Prof. Dr. Fadıl H. Sur'un Anısına Armağan* (Ankara: AÜSBF Yayınları No. 522, 1983).

<sup>95</sup> Vedat Milor, “The Genesis of Planning in Turkey,” *New Perspectives on Turkey*, no.4 (Fall 1990), p.14.

any part thereof.”<sup>96</sup> That is to say, the planning agency would not take any role in the daily implementation of the allocation of incentives for private sector encouragement to guarantee its autonomy. For the same reason, the Bureau was suggested to be organized under the prime minister’s responsibility and under the supervision of the minister of state for planning.

The first draft bill presented to the Council of Ministers was that of Şefik İnan, who had prepared the proposal on his own initiative. İnan was the minister of state in the National Unity government and prepared the draft together with Muhlis Ete, who had been a cabinet member of the DP government before he joined the liberal opposition after the foundation of the Freedom Party in 1955. However, in the “Commentary” section of this draft it was noted that the bill was “based on the memorandum of Prof. Tinbergen and on the studies conducted with the participation of Mr. Koopman.”<sup>97</sup> As Torun puts it, “the main consideration that guided the preparation of this draft was the establishment of an adequate degree of control over the economy while avoiding a plan that would be too imperative or compulsory in nature.”<sup>98</sup> The draft foresaw the establishment of an Economic Planning Office that would be the main decision-making body. However, the greatest emphasis was given to the temporary specialized committees dominated by the representatives of the private sector. It is worth noting that all the bodies constituting the Organization were designed as huge units so as to include the views

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<sup>96</sup> Mihçioğlu, 1983, p.249.

<sup>97</sup> Ibid., p.240.

<sup>98</sup> Osman Nuri Torun, “The Establishment and Structure of the State Planning Organization,” in İlkin and İnanç (ed.), p. 53.



of various sectors. For example, the Central Planning Office, which would provide the coordination between the Economic Planning Office and specialized committees, would contain sixty-six persons of whom only twenty would be designated as Experts in Economic Planning. That was in stark contrast to Tinbergen's memorandum, which proposed a small and highly talented technocrat group. In effect, the Bill intended to restore confidence in the public sector by clearly defining the limits of the public sector activity via planning.

Colonel Alparslan Türkeş, who was holding the undersecretariat of prime ministry then, was aware of the preparations of İnönü and Ecevit and believed that their proposal would only bring the revival of the abolished Ministry of Coordination. Türkeş was a representative of the most radical wing of the NUC which desired a thorough reform of the political system and had no confidence at all in political parties.<sup>99</sup> He envisioned a planning agency growing into a super-ministry of the economy. Türkeş encouraged Colonel Şinasi Orel to outline an alternative draft bill which would give the planning agency with exceptional authority. Immediately afterwards, Şinasi Orel made contact with a group of young experts, most of whom had worked with Tinbergen and Koopman.<sup>100</sup> However, this group believed that major economic decisions should be backed by political responsibility. In effect, they envisaged a modern western-type capitalist planning agency akin to those in

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<sup>99</sup> This group consisted of 14 officers were finally excluded from the NUC by Cemal Gürsel on 13 November 1962 and posted as attachés to Turkish embassies abroad. Eric J. Zürcher, *Turkey: A Modern History* (London: I.B. Tauris & Co., 1993) pp. 253-256.

<sup>100</sup> This group involved Besim Üstünel, Atilla Karaosmanoğlu, Nur Yalman, Sadun Aren and Nejat Bengül among others.

France and Italy.<sup>101</sup> Nevertheless, their draft was quite different from the İnan Draft and reflected the search to provide a certain degree of autonomous power for the Organization.

The establishment of the organization was based on three units: the Economic Council, the High Planning Council, and the Central Planning Office.<sup>102</sup> The economic Council was designed to represent public opinion in the High Planning Council and help in the assimilation of the plan in the public. In order to perform this functioning, the Economic Council would establish close contact with the universities, other scientific and technical institutions, trade unions and private establishments.

As has been discussed in the first chapter of this thesis, the recent theories of the developmental state put great emphasis on the distinctive modes of state-private business relationship in which economic projects are advanced by cooperation, in a manner that their adoption and implementation are monitored by the state. It seems that the Economic Council was contemplating the performance of such a function together with providing the democratic content of planning. Considering that one important problem of the planning preparations before May 27 was gathering information from the private sector about their investment projects,<sup>103</sup> the would-be

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<sup>101</sup> Before and after 27 May the Institute of Public Administration for Turkey and Middle East (TODAİE) published several reports to introduce the planning organizations in many other countries. See, for example, TODAİE, *Planlama Teşkilatı İncelemeleri*, (Ankara: Bakanoğlu Matbaacılık, 1961).

<sup>102</sup> "Milli Planlama Teşkilatının Kurulması Hakkında Geçici Kanun Tasarısı," in Cemal Mihçioğlu, "Yine Devlet Planlama Örgütünün Kuruluşu Üzerine," *A.Ü. Siyasal Bilgiler Fakültesi Dergisi*, nos.1-2 (January-June 1998).

planners seemed to have recognized the importance of establishing selective state-business linkages to enhance the transformative capacity of the state.

The function of the High Planning Council was to assist the Council of Ministers in determining economic and social policy goals and check the conformity of the prepared plans with the determined goals before they are submitted to the Council of Ministers. It would include fifteen members, of whom seven would be ministers and eight, experts. Thus the planners would have a strong hold against the possible pressure from the politicians.

Another important feature of the Orel Bill was that it contained social planning. Social planning was a much debated issue in the NUC meetings and it was deemed essential so as to protect the national integrity against the divisive currents.<sup>104</sup> Accordingly, it was decided that a Social Planning Department would be established under the Central Planning Organization in addition to the Economic Planning Department and the Coordination Department. In the Commentary section of the bill, it was stated that the name selected for the organization was the National Planning Organization since “the economic and social aspects of planning were considered in close connection to each other, so that the plans to be prepared would be one consistent whole.”<sup>105</sup> The Orel Draft Bill and the İnan Draft Bill were submitted for the approval to the National Unity Committee on August 5, 1960. After long discussions, the Committee accepted the Orel Draft Bill by the majority,

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<sup>103</sup> See Necat Erder et al., p. 56.

<sup>104</sup> Mihçioğlu, 1983, p. 233.

<sup>105</sup> Quoted in Torun, 1967, p.58.

with some alterations. The next day, Şefik İnan, whose project had been defeated, resigned from the membership of the Council of Ministers.<sup>106</sup>

The most important modification in the Orel Draft was the elimination of the Economic Council, on the grounds that it was a separate organization and consequently required a separate act. It is noteworthy that, on the business side, a general consensus had been maintained since the late 1940s on the need for the cooperation of the state authority with the business organizations in a “democratic fashion” that would initiate coordinating mechanisms for the economy. However, the Economic Council was opposed by the military as well as some intellectuals on the grounds that it might become an instrument in the hands of vested interests trying to put pressure on the governments.<sup>107</sup>

Another significant revision in the draft was that the High Planning Council was transformed to include eight members of whom four would be ministers, including the Prime Minister as the head of the Council, and four technicians, the Undersecretary for Planning, and heads of the Economic Planning, Social Planning, and Coordination Departments. The main aim here was to create a balance between technical and political authorities in the decision-making process of the economic and social targets.

The foundation law of the State Planning Organization was promulgated on September 30, 1960, only four months after the coup d’etat and prior to the opening of the Constitutive Assembly. As some observers have noted, given the impatience

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<sup>106</sup> Mihçioğlu, 1998, p. 129.

<sup>107</sup> See *Forum*, “Kooperatif Meclis ve İktisat Şurası Teklifleri,” 15 July 1960, p.7.

of the coup makers on the issue, the essential purpose of the military coup appeared to be the establishment of the State Planning Organization.<sup>108</sup> In the foundation law of the SPO, Law No. 91, the Central Planning Organization was envisaged as an undersecretariat of the prime ministry. There were two reasons for this formulation. One reason was to guarantee its privileged and autonomous position within the state. It was not found appropriate to attach the organization to any one of the ministries as was the case in certain other countries. Thus as the second undersecretariat under the prime ministry, it would not be involved in the day-to-day management of macroeconomic and industrial policies.

The same search for autonomy of the SPO was also reflected in the personnel regime of the organization. As was the case in French planning agency, the CGP,<sup>109</sup> the SPO was designed as a very small and coherent technocratic agency. In 1961, there were only forty-eight experts occupying permanent positions.<sup>110</sup> On the other hand, Law No. 91 provided the Organization with flexibility in the recruitment of personnel. Thus the Organization had the ability to employ Turkish and foreign experts on a contract basis, without being subject to the regulations of the State Personnel Regime. The SPO was also authorized to make use of the services of university members and government officials. The admission of the permanent experts was submitted to strict rules. Candidates to expert posts had to pass through

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<sup>108</sup> Çağlar Keyder, *Türkiye'de Devlet ve Sınıflar* (İstanbul: İletişim Yayınları, 1990), Second Edition, p. 122.

<sup>109</sup> See Stephen S. Cohen, *Modern Capitalist Planning: The French Model* (London: C. Tinling and Co., 1969).

<sup>110</sup> SPO, *Planning* (Ankara: SPO Publications, 1963), p.19.

several examinations in their subject and foreign language. Moreover, the opportunity of training abroad for one or two years was provided to young experts.

The second motive behind the establishment of the SPO as an undersecretariat was to cover all aspects of social life, including all branches of the administrative services. This approach taken by the SPO was not unique to the Turkish case. Planning in the world of the 1950s and 1960s was generally structuralist: It focused on the economy as a whole and was aimed at altering the relative importance different sectors in the economy.<sup>111</sup> What was outstanding in the formulation of the planning concept in Turkey, was that it put a certain emphasis on the idea of planning as an instrument to mobilize the scarce resources in a rational manner for the “common good.”<sup>112</sup> The military rulers and the early planners conceived economic development and social justice as twin objectives for the creation of conditions for a democratic consensus.<sup>113</sup>

To what extent the Turkish business class and the policy makers were ready to undertake this “hegemonic strategy” that underlined the importance of social justice

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<sup>111</sup> A brief account of structuralist planning is provided in Chapter 2 of Roger Backhouse, *Economists and the Economy* (Oxford: Basil Blackwell, 1988).

<sup>112</sup> For this reason Galip Yalman identifies the establishment of the State Planning Organization as a hegemonic apparatus for gaining the consent of the popular classes in a democratic setting. Galip Yalman, “Hegemonya Stratejileri Olarak Devletçilik, Kalkınmacılık ve Piyasa”, in Keyman (ed.), p.328.

<sup>113</sup> The twin objective of planning was also introduced in the 1961 Constitution with the Article 41 headed “The Regulation of Economic and Social Life” as follows:  
“Economic and social life shall be regulated in a manner consistent with justice, and the principle of full employment, with the objective of assuring for everyone a standard of living befitting human dignity  
It is the duty of the State to encourage economic, social and cultural development by democratic processes and for this purpose to enhance national savings, to give priority to those investments which promote public welfare, and to draw up development projects.” The translations of legal provisions concerning the establishment and functioning of the SPO are provided in *Introducing Turkey’s State Planning Organization* (Ankara: SPO Publication No.3, 1963).

for the maintenance of Turkish capitalism is the main question that will be discussed in this chapter. To put it differently, the readiness of the significant sections of the Turkish business to transcend their short-term interests for the long-term economic change and development will be determined.

Before proceeding further, in this context, it is necessary to indicate the significance of another feature of the planned period which had direct bearing on the way in which the objectives and the conduct of the economic policies were determined. In this period the Turkish private sector further consolidated itself. First, the establishment of an employers union federation, TİSK, even before the introduction of the new codes in 1963 concerning the right to strike and collective bargaining, marked a new phase in the development of the political consciousness among businessmen. Second, starting with the early 1960s, businessmen and their representative organizations became more active in articulating their interests. The Union of Chambers, in general, and Chambers of Industry, in particular, voiced their demands more powerfully through publishing periodicals, reports and establishing closer links with political parties and governments. From the early 1960s the leaders of most member chambers took over top positions in the center-right parties, namely the New Turkey Party and especially the Justice Party.<sup>114</sup> Furthermore, the businessmen also began to arrange private meetings with policymakers without the intermediation of their organizations and individually declared their concerns about the economic and social problems of the country. Thus, as Buğra noted, some prominent Turkish businessmen had “begun to appear

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<sup>114</sup> Robert Bianchi, *Interest Groups and Political Development in Turkey* (Princeton, N.J.: Princeton University Press, 1984), p. 251

as public figures, a phenomenon which had hardly existed in the pre-1960 period".<sup>115</sup>

### The Agenda of Early Planners

Regarding the mentality of the early planners, one can observe a tension between a technocratic stance and an activist reformism. On the one hand, they were committed to their position within the state apparatus as an advisory body under the authority of the prime minister, while on the other hand, they certainly lacked confidence on the politicians, and, with the political support of the 27 May movement, believed that they obtained an ever lasting opportunity to undertake the necessary structural reforms that would remove the major institutional obstacles on rapid economic and social development.

However, their volitional optimism for structural change had been conditional upon the support of the military rule, which ended following the transformation to a multi-party democracy in October 1961. With the reintroduction of party politics, the main lines of conflict among the social and political forces surfaced once again.

These differences of outlook can best be shown by comparing the directives given in the Strategy Document that was approved by the Council of Ministers at the time of National Unity government, and the final text of the plan approved by the coalition government. Tracing the difference between the objectives and instruments envisaged in the Strategy Document and those retained in the final text

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<sup>115</sup> Buğra, p.134.



of the First Five Year Development Plan, at least three major differences of opinion relating to economic and social matters can be identified.

Turkish planning was based on the so-called three stages approach developed by Tinbergen.<sup>116</sup> In the first stage, often called the “macro stage,” the planners discussed with the government the overall growth targets for the economy. This was done by technical studies which specified the development targets on the one hand, and the factors limiting the development on the other. In the second stage, called the “sectoral stage,” the amount of total investments and savings, and their sectoral composition that are needed to realize the target growth rate was determined by using a simple input-output model. It is also this stage that involved sharp negotiations between the planners and the businessmen about sectoral development projects in the ad hoc special commissions. What is most important here is the consistency between the two stages and the achievement of various balances.<sup>117</sup> Finally, the third “project stage” involved the evaluation of the investment projects according to a complicated technique based on social profitability.

In the Objectives and the Strategy of the Plan document adopted by the HPC, the attainment of approximately seven percent rate of growth was determined as the target for the forthcoming plan period. It was estimated that in order to achieve this growth rate, in the early years an investment ratio of around eighteen percent would be required, with an increasing savings ratio for the later years. Furthermore,

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<sup>116</sup> For the methodology of the plan see J. Tinbergen, “Methodological Background of the Plan”, in S. İlkin and E. İnanç.

<sup>117</sup> Yalçın Küçük, *100 Soruda Planlama, Kalkınma ve Türkiye* (İstanbul: Gerçek Yayınevi, 1971), p.238.

savings policy was determined to “lead to a narrowing rather than widening of the differentials in the income distribution.”<sup>118</sup>

A major point of disagreement between the draft plan and the final text was the problem of the reorganization of the State Economic Enterprises. The early planners assigned a strategic role to the public sector in promoting growth and redistributing more evenly the burdens of this process among the different social strata and regions of the country. It can be argued that that was partly because of a general tendency of thinking among the reformist policy makers in less developed countries that the public sector was more capable of inducing higher rates of saving and of channeling them to more promising (development promoting) fields than the economy could do by itself. In particular, the Turkish planners had strong misgivings about the future savings capacity of the private sector. For in the 1950-1960 period the private savings remained too low and were heavily directed in short-term and unproductive fields such as land speculation and luxury housing for the middle classes. According to an estimation, an average of thirty-four percent of fixed investments in this period were channeled to luxury housing, most of which were realized by private business.<sup>119</sup>

As the planning was of an indicative kind for the private sector, the planners lacked direct control on the private sector, but, at best, could manipulate some incentives and disincentives to influence its behaviour. However, the plan had an

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<sup>118</sup> “Objectives and the Strategy of the Plan” in SPO, *Introducing Turkey’s State Planning Organization*.

<sup>119</sup> Kemal Kurdaş, *Ekonomik Politika’da Bilim ve Sağduyu* (İstanbul: ES Yayınları, 1979), p.73.

imperative quality for the public sector and the planners believed that the realization of the economic and social objectives could be facilitated if the State Economic Enterprises were utilized consciously and systematically. Therefore, the early planners proposed the reorganization of the SEEs so as to make them more profitable, efficient and competitive. The early planners' stress on the rationalization of the public sector for long-term economic change rested on the criticism of the etatism of the 1930s. In the conventional identification of the SEEs, these enterprises were utilized by the governments for favoritism to gain political support. As a result, the SEEs were put in a position in which they were to purchase their raw materials at prices above the competitive market prices so as to protect primary producers, and to sell their products at prices below the equilibrium prices to protect the consumers. This pattern of functioning, particularly during the 1954-1960 period, was the primary cause of the rapid inflation due to the increases in money supply resulting from the expansion of Central Bank credits to the State Economic Enterprises. For, some of these credits were used for investment expenditures of the public enterprises, while a significant proportion was in the nature of subsidies to cover operating costs.<sup>120</sup> This conceptualization of the SEEs was considered an "absurdity" among the early planners.<sup>121</sup>

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<sup>120</sup> For a brief review of the pricing policies of SEEs before 1960, see Oktay Yenal, "Price Policy of the State Economic Enterprises," in Economic and Social Studies Conference Board, *State Economic Enterprises* (İstanbul, 1968). The Conference Board was established by a group of prominent businessmen led by Nejat Eczacıbaşı so as to assemble representatives of business circles, politicians and native and foreign experts in conferences and seminars organized in order to develop policy inputs on current economic and social issues.

<sup>121</sup> Kenan Bulutoğlu, "Financing Turkey's Development Plan," in S. İlkin and E. İnanç (eds.), p.199.

It can be argued that the mixed economy model of ISI in the Turkish case, which strengthened the traditional relationship between the public sector and the private sector, was entirely alien to the model those early planners had in mind. As Milor said, “by proposing a new price policy for the SEEs that should conform to market criteria, planners aimed to generate some additional funds in the economy – given that the ratio of savings to GNP was a mere twelve percent – that should have been used in accordance with the priorities of the plan and especially for undertaking new investments in capital goods. In short, the actual functioning of the SEE was seen by planners as useful for individual capitalist interests and politicians, but dysfunctional for the expanded accumulation of capital.”<sup>122</sup>

The draft proposed that a distinction should be made between traditional (“etic”) activities and the production activities of the state. For those “utility enterprises,” the price policy should be flexible so as to ensure their function of welfare distribution and the well-being of the citizens. Yet for those public enterprises competing with private enterprises, prices were to be determined by market conditions. According to the planners’ proposition, all the SEEs would be attached to a central authority, which would exercise the function of control over the general management and investment policies of these enterprises. This central authority would be designed to provide financial auditing and employ a permanent staff to introduce new methods of management.<sup>123</sup> In addition, the political and

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<sup>122</sup> Milor, p.23.

<sup>123</sup> Bulutoğlu, 1967, p.199. See also “İktisadi Devlet Teşekküllerinin Reorganizasyonu,” *Planlama*, no.1 (Fall 1961).

private business interferences in the management of public enterprises were identified as the most important cause of their low efficiency.<sup>124</sup>

The planners had the idea of reorganizing the public sector to make it more competitive vis-a-vis the private sector. However, a potential State Economic Enterprises reform was met by the representatives of industrial capital with strong opposition on the grounds that it might call for a systemic change in the future that would have shaken their place in society. In other words, while for the early planners the alteration of the role assigned to the public sector under etatism was necessary for the “expanded accumulation of capital,” it appeared to be inimical for the short-sighted particularistic interests of the individual businessman and politicians. In February 1962, after a four day meeting with industrial businessman, Prime Minister İsmet İnönü declared that “in actual practice the state and the private sector are not opposed to each other in our country. The important thing is what kind of relationship should be established between the two. This can be achieved by the cooperation and the mobilization of the resources of both sectors.”<sup>125</sup> After the formation of the Second İnönü Coalition in June 1962, it became more apparent that the possibility of a SEEs reform was excluded from the political agenda. The coalition partners of the RPP, namely the New Turkey Party (NTP) and the Republican Peasants Nation Party, as well as the Justice Party in opposition

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<sup>124</sup> A characteristic of the SEEs was the high turnover rates due to political interventions. According to an estimation roughly three fourths of top level managers stayed on job less than five years due to political interventions. Sabahattin Zaim, “Problem of Productivity and Profitability in State Economic Enterprises,” in ESSCB, *State Economic Enterprises*, p.257.

<sup>125</sup> Quoted in Ahmad, p.273.

envisaged only a “complementary” role for the SEEs.<sup>126</sup> Actually the coalition protocol was assuring the protection of the conventional division of work between public and private sectors:

Frankness and decisiveness must form the basis of the State’s economic policy, and the finance, currency, price, foreign trade, and investment policies and their implementation must be regulated by enabling private enterprise to be farsighted and to operate with a lasting sense of confidence... The fundamental principle that must guide the work undertaken by the State should be to make strategic investments, investments necessary for long-term development, and investments that private enterprises cannot undertake.<sup>127</sup>

Consequently, the planners’ proposal for reform was rejected in the High Planning Council and deleted from the final text of the First Five Year Development Plan. Had their proposal been accepted, the SEEs would have become a competitor to the private sector which, according to the planners, would instill dynamism to the economy by reducing the dependency of the private sector on the low-priced commodities produced by the public sector, and would create investable funds for the economy in the long run. The words of an early specialist who worked in the commissions for the reorganization of SEEs reveal the disappointment of the planners as follows: “(In the plan) the problems were not faced squarely and they were not stated openly. What is more important, a so-called ‘mixed economy’ way of development was advanced as the *modus operandi* of the Plan – formulated, without any doubt, under the pressure of *all* political parties then represented in the

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<sup>126</sup> For the party programs, see Ferruh Bozbeyli, *Türkiye’de Siyasi Partilerin Ekonomik ve Sosyal Görüşleri-Belgeler: Parti Programları* (İstanbul: Ak Yayınları, 1971).

<sup>127</sup> In Ahmad, p.274.

Parliament.”<sup>128</sup> Hammaş also notes that the common arguments of those politicians who opposed the SEEs reform in the name of “rules of the mixed economy system” concentrated on “constitutional rights,” “democratic freedom,” and on the “sacredness” and the “sensitivity” of private enterprises.<sup>129</sup>

Nevertheless although the plan did not go to any separation between utility enterprises and those competing with the private sector, and in implementation it was apt to lead to inconsistencies, it remained a notion of rational and autonomous management for the public sector.<sup>130</sup>

Tax and land reforms were coded by the early planners as crucial steps to be taken in order to achieve not only the target growth rate, but also the security and independence of the developmental efforts against the offense of the “conservative” forces. So it should not be surprising to see that a major point concerned in the draft plan was land reform. Actually, land reform had always been a subject of big dispute in Turkish political life. Conflicts on the issue had triggered the separation of the Democrats from the RPP in 1946, and since the late 1950s it had become a trademark distinguishing the “progressive” parties, thanks to the efforts of the left-wing intellectuals of the time.

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<sup>128</sup> R. Hammaş, “The Plan and the State Economic Enterprises,” in S. İlkin and E. İnanç, p.140.

<sup>129</sup> Ibid.

<sup>130</sup> The Second Five Year Plan adopted a very different attitude in which the prices of the SEEs would be kept low in the same way as in the pre-1960 period: “The authority given to the government by the relevant legislation to determine the prices and tariffs of the basic goods and services produced by the State Economic Enterprises will be utilized as a device to secure price stability. In determining the prices of the goods and services, the impact of these prices on development of the basic industries, the volume and allocation of the investments and the production of sectors using these basic goods and services as inputs will be taken into account.” Quoted in Oktay Yenal, “Price Policy of the State Economic Enterprises,” p.296.

After the 27 May coup d'état, land reform once again appeared to be a possibility for those who believed that important reform measures could not be realized unless the social base of the supporters of the status quo was not carved up. As a matter of fact, the protagonists of the coup d'état seemed to be determined to enact the land reform before turning over the power to an elected government. As soon as August 1960, the NUC asked the Ministry of Agriculture to prepare a reform bill. Furthermore it assigned the state the duty of land reform by putting the issue in the constitution. Article 27 stated that "the State shall adopt the measures necessary to achieve the efficient utilization of land and to provide land for those farmers who either have no land, or insufficient land. For this purpose the law may define the size of the tract of land according to different agricultural regions and the type of land. The state shall assist farmers to acquire agricultural implements."<sup>131</sup>

However, the NUC did not take an active position on land reform as expected, setting aside sending fifty-five large land owners (*agas*) from southeastern Turkey into exile to other regions of the country.<sup>132</sup> By 1962, the land reform seemed to be remote from the agendas of the National Assembly since the RPP, associated with the excesses of the NUC by large, did not want to alienate further the large landed

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<sup>131</sup> Besides, Articles 38, 52 and 53 stipulated the conditions of expropriation and compensation to the owner of expropriated land.

<sup>132</sup> D. Mehmet Doğan, *Tarih ve Toplum: Türkiye'de Toprak Meselesi* (İstanbul: Dergah Yayınları, 1977), p. 284. It is noteworthy that the major targets of this act were declared to be: a) to start a series of social reforms b) to transform the remnants of the medieval system in Turkey, and c) to exhibit that there was no power above the state



interests. Although a number of drafts for land reform were prepared by İnönü coalitions, they were never enacted.<sup>133</sup>

The planners advocated land reform as one of the crucial structural reforms for the accomplishment of the economic and social development objectives and prepared a special appendix to the plan on the subject. Depending on the preliminary reports, the planners argued that under the conditions of low productivity and high unemployment, the agricultural sector could by no means serve the economic development objectives of the plan. In 1960 the share of agriculture in the national income decreased to between 40-45% while this ratio was 50% in the 1950s.

However, this low figure was provided by seventy-five percent of active population. With regards to land ownership, the agricultural census of the State Institute of Statistics (SIS) proved that 82% of the farmers owned 51.5% of the farm land, while 46.5% of the land was in the hands of the remaining 13% of the landholders.<sup>134</sup> The planners' proposition was based on a report prepared by a foreign institution, the Food and Agricultural Organization. It foresaw a maximum limit to land holdings. This limit was "to vary according to regions, irrigation possibilities, and other characteristics of the land." A commission was to be set up to implement the reform measures. In addition, the draft included proposals for the improvement of land tenure, the use of machinery and fertilizers, and the

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<sup>133</sup> Between 1960 and 1971 only the fourth Land Reform Bill was finally brought to the National Assembly in 1965 by the third İnönü Coalition. However, it was rejected because "some 30 RPP members representing the large land owners did not participate in the voting." Doğan Avcıoğlu, *Türkiye'nin Düzeni* cilt 2 (İstanbul: Cem Yayınevi, 1973), p. 690.

<sup>134</sup> D. Kayran, "The Plan and the Agricultural Sector" in S. İlkin and E. İnanç, pp.114-116.

organization of agriculture in general by encouraging the agricultural cooperatives.<sup>135</sup> Furthermore, scattered and fragmented plots would be consolidated, sharecropping conditions would be regulated, and cooperative movements would be promoted.<sup>136</sup>

This proposal, in terms of social change, reflected the early planners' desire to reshape the agrarian structure, which they thought was the breeding ground of "conservative forces" against the social and economic development of Turkey. In financial terms, the redistribution of land, especially in the southeastern regions of the country, would result in the increase of the taxable surplus because it would prevent absenteeism and encourage the effective utilization of idle land. However, opposition from not only politically powerful landowners, but also from influential business circles who had strong misgivings about the overall projects of the planners, nullified these efforts toward land reform.<sup>137</sup> Consequently, this project was not even discussed in the High Planning Council and deleted from the plan.

The opposition to the land reform argued that this reform would rather hit the agricultural economy and would be detrimental for the future development projects.<sup>138</sup> The JP managed to manipulate this issue and recruit the opposition in the course of the 1960s under the policy of "agricultural reform" that meant to increase agricultural production by assuring irrigation, fertilizers, mechanization,

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<sup>135</sup> Sönmez, p.41.

<sup>136</sup> Kayran, pp.129-130.

<sup>137</sup> Türkiye Ticaret Odaları, Sanayi Odaları ve Ticaret Borsaları Birliği, *Toprak Reformu Kanun Tasarısı Üzerine Görüşler* (Ankara: TTOSOTBB, 1965).

<sup>138</sup> Ibid, p.20.

seeds and other inputs and increased credits, rather than providing land for every peasant family.

The third difference of outlook between the planners and the coalition government was over the issue of financing. In this respect, for the planners, the issue was the method of financing of the investments. Yet in the eyes of the civilian politicians the problem was merely the volume of financing. The government was not even prepared to set targets in financial terms. They did not want to put in the plan the necessity of more elasticity and reform in the Turkish tax system in order to assure a rise in tax revenues. However, in the Strategy Document of the plan, the planners had clearly exhibited that in order to reach seven percent average annual rate of growth, at least, an investment rate of 18.3 % of the GNP should be attained.<sup>139</sup> In order to attain such a high rate of investment, it was necessary to increase public savings via new taxes.

Savings from the national income and investments made each year remained very low in the 1950s. In the ten year period investments in Turkey averaged 13.7% of the GNP and at least two percent had to be continuously satisfied from foreign sources. Thus the investment level realized solely from domestic sources remained 11.7%, a very low level compared to other developing countries. Considering that the annual increase of population reached three percent, the insufficiency of the rate

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<sup>139</sup> As stated above, the macro model of the plan depended upon a model equating the income level to gross investment by using related capital-output ratios. For the first five year period incremental capital-output ratio (ICOR) was estimated to be 2.6, although there was strong suspicion among the planners that this rate might grow higher than that foreseen in the plan. This probability was making the financing problem more critical for planners

of 11.7 % allocated from the national income to savings and investments was obvious.<sup>140</sup>

The plan did not specify targets for private and public savings. That was also true for investments. It was stated that the minimum amount of investments to be undertaken by each sector would be specified in the annual programs. That is to say, public investment targets would be revised annually according to the performance of the private sector. However, the SPO had some projections about the expansion of private and public savings that had to be achieved during the plan period. Accordingly, the private savings were to increase by eleven percent annually, a target that could only be accomplished if serious measures could be taken to alter the established habits and values of the private sector. For in the 1950-1960 period the share of the private savings in total savings gradually reduced due to the speculative and day-to-day profits motive of this sector, as well as the encouragement given to investors by the inflationary bank credits instead of painful savings.<sup>141</sup>

Another problem in this regard was the tendency that the private savings increasingly flowed into low efficiency fields in the pre-plan period such as land speculation and building construction. Thus, it was considered that if the target level of investments would be attained, the public investments had to be increased beyond the level projected in the plan. Moreover, the plan's resource allocation principles were to be determined so as to "lead to a narrowing rather than to

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<sup>140</sup> Kurdaş, p.72.

<sup>141</sup> Besim Üstünel, *Kalkınmanın Neresindeyiz*, (Ankara: Sevinç Matbaası, 1966), p.61.

widening of the differentials in income distribution.” The implicit meaning under the Objectives and the Strategy of the Plan document was that the higher incomes must be taxed proportionately more than the lower incomes, without regard to in which sector they were generated.

In comparison with the private sector savings, the yearly savings of the public sector seemed to be quite satisfactory as it constituted 65% of domestic savings during the 1950-1960 period. However, this number concealed the real situation and the bottleneck in the field of public funds. Actually, the savings included in the general and annexed budgets were too low compared to world standards. Second, the greatest part of these earnings was mainly provided by the Central Bank credits, constituting the major cause of the inflation, as noted in the previous chapter. Hence, the fiscal requirements of development imposed themselves as the most important issue of debate in the planning process.

The tax yield in Turkey was merely 14% of the GNP in 1962. When it was considered that this ratio was around 20% in most countries and even exceeded 30% in many advanced countries, this appeared to be a very low ratio. The SPO argued that the tax yield should be raised to at least 17.3% at the end of the first five year period in order to compensate for not only the capital formation in the public sector, but also the shortcomings in private savings.<sup>142</sup> That is to say, the tax yield was to raise more rapidly (an average of 10.8 % annually) than the increase in national income.<sup>143</sup> Accordingly, the planners argued that a tax reform was urgently

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<sup>142</sup> Kurdaş, p.78.

<sup>143</sup> Memduh Yaşa, *İktisadi Meselelerimiz* (İstanbul: Nurettin Uycan Matbaası, 1966), p.75.

needed in order to ensure both the effective taxation of economic activities and the widening of the tax base.

The first thing considered in this regard was the taxation of agricultural incomes. For, although more than 40% of the GNP was generated in agriculture, the tax return from the taxation of this sector remained merely 4-5%. The military officers had passed an income taxation law (Law 193) soon after the coup d'état. The law aimed at securing the balance between direct and indirect taxes by filling the gap in the income tax system and securing social justice by demanding that every citizen contribute to public expenditure. Yet most of the provisions of Law 193 concerned the agricultural incomes.<sup>144</sup> Around 200 million TL of tax return was expected yearly for the next ten years from the taxation of agricultural incomes. It is noteworthy that President Cemal Gürsel underlined that only large landowners were intended to be taxed with this law which would affect only some ten percent of the agricultural population.<sup>145</sup> The NUC also passed a new law raising the rates of land tax.

However, the opposition against the Income Tax Law did not wait long. The representatives of the landed interests and the Union of Chambers reacted against the law. The opposition to the Law 193 claimed that the taxation of agriculture would have negative effects on agricultural production because the farmers would

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<sup>144</sup> Üstün Ergüder, "Politics of Agricultural Taxation in Turkey," (Ph.D. Dissertation, Syracuse University, 197), p.278.

<sup>145</sup> Ahmad, p.284.

leave their land uncultivated. It would also encourage the taxpayers to evade paying the tax, thus causing many social and moral problems.<sup>146</sup>

Before the elections of 1961 it appeared that all parties were trying to strict to middle-of-the-road policies about taxation problem. On the one hand, it was getting increasingly difficult to deny the necessity of taxing the high agricultural incomes because the NUC and the intellectuals were quite successful in presenting the issue under the banner of “common good” and “national development.” However, on the other hand, they had to take into account the pressure coming from agricultural and business interests. It was especially a bitter problem for the RPP, which had been associated more or less with the excesses of the NUC and which still had a considerable number of representatives in the administration of the Farmers’ Federation. Consequently, they took on vague positions about taxation. Both the RPP and the JP promised that they would relieve the tax burden on the Turkish economy as a whole by preventing tax evasion, while at the same time showing their reluctance to tax agricultural incomes.<sup>147</sup> Complaining about the “method of taxation” in the Taxation Law and questioning the practicability of the legislation were the easy ways of avoiding the problem.

Soon after the elections in October 1961, the National Assembly reached an agreement on delaying the application of the Income Taxation Law on the grounds

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<sup>146</sup> Türkiye Ticaret Odaları, Sanayi Odaları ve Ticaret Borsaları Birliği, *Zirai Kazançları Vergilendirilmesi Mevzuundaki Görüş ve Tekliflerimiz* (Ankara: 1961), pp.6-7.

<sup>147</sup> See Osman Okyar, “Vergiler Mevzuunda Partilerin Tutumu,” *Forum*, no.181 (15 October 1961); See also İsmail Türk, “Vergi Reformu,” *Forum*, no.202 (15 September, 1961).

that the law did not “take into account the realities of the agricultural sector.”<sup>148</sup> Yet the question of income taxation did not end with this legislation. A Tax Reform Commission was created in 1961 to make recommendations on the tax system. The commission was led by Ali Alaybek, known as the architect of the Turkish income tax system, and composed of experts from the Ministry of Finance, representatives of the private sector and one representative from the agricultural sector.<sup>149</sup> The recommendations of the Tax Reform Commission were adopted by the Ministry of Finance and made public with a report in late 1961. The Commission’s report emphasized some tax relief measures and investment allowances for increasing the incentives for saving and investment. The report also widened the limits of exemptions in the agricultural income tax.<sup>150</sup> It is noteworthy that throughout these studies, the SPO was consciously excluded.

Upset with the approach adopted by the Ministry of Finance, the SPO invited the British economist Professor Nicholas Kaldor to put forward an alternative attitude to the question of taxation. Kaldor pointed out two alternatives to the problem of tax reform for fostering economic development. The first approach, that was called the “resource approach” in the report, was to create the necessary funds through taxation. The second, called the “incentive approach,” was to encourage household savings and provide investment incentives to firms through tax

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<sup>148</sup> Ergüder, p.348.

<sup>149</sup> The private sector’s views on tax reform are provided in *İstanbul Ticaret Odası Mecmuası*, “Vergi ve Kalkınma,” vol.79 no.1-2 (January-February 1963).

<sup>150</sup> Bulutoğlu, 1967, p.192; “Plan Kuşa Dönüyor,” *Yön*, no.34 (8 August 1961), p.8.



exemptions and tax rebates.<sup>151</sup> According to Kaldor, the latter approach which was chosen by the Tax Reform Commission and the Ministry of Finance proved to be unreliable especially for the less developed countries. He argued that the tax burden in Turkey fell heavily on groups which depended on salaries and wages for their living and that the tax revenue from capital and profits were very low. Thus, he stated, the income tax as well as other taxes such as corporate tax, inheritance tax, land and building taxes should be raised substantially to speed up economic development.<sup>152</sup> The Kaldor Report also suggested that an income tax system was not appropriate for the direct taxation of agricultural incomes because farmers were not literate enough to keep accounting books. Rather, a land tax which was based on the potential output of the land was more suitable for Turkey. The potential output was defined as the output which would be yielded if the land was managed with average efficiency. The tax base would be determined by the tax officers according to the yield of the average land in that region. Moreover, because the tax was progressive, it would punish the inefficient, large landowners and help to redistribute the land. On the other hand, it would encourage the farmers to produce more because agricultural output above the potential average would not be subject to taxation.

The decisive confrontations between the politicians and the planners that resulted in the resignation of the latter group emerged in the meetings of the High

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<sup>151</sup> Bulutoğlu, 1967, pp.191-192.

<sup>152</sup> For example an upward adjustment of 20 to 40 percent was recommended to be made in corporate tax rate. Nicholas Kaldor, "Türk Vergi Sistemi Üzerine Rapor," *Toplum ve Bilim*, no.15-16 (Fall 1981/Winter 1982), pp.108-110. For an evaluation of the Kaldor Report in general, see İzzettin Önder, "Nicholas Kaldor," *Toplum ve Bilim*, no.15-16 (Fall 1981/Winter 1982).

Planning Council to review the preliminary drafts of the plan in the summer of 1962. Prime Minister İsmet İnönü and three deputy Prime Ministers, Ekrem Alican from NTP, Hasan Dinçer from RPNP, and Turhan Feyzioğlu from the RPP, represented the government. Ferit Melen, the minister of finance, also attended the meetings, as a non-voting member. From the first day of the meetings, heated debates took place between the planners and the politicians and between the planners and the representatives of the Ministry of Finance. On the tax reform, the attitude of the politicians and the Ministry of Finance bureaucrats were contemptuous of the planners' proposal. Ferit Melen showed his disdain by saying that, "I believe that it needs to place a gendarme in each house, if we are to implement this taxation law."<sup>153</sup> Ekrem Alican's reaction was not different: "If we promulgate this law, we had to counter bigger revolts... We must act on the lessons derived from the past experiences such as the wealth tax, which triggered the citizen reaction."<sup>154</sup>

Moreover, the government forced the planners to declare to the public that the target growth rate of the GNP for the first year of the plan was 7.6%. However, this target growth rate was unrealistic given that none of the required fiscal reforms were realized. The top officials of the organization, namely the Undersecretary of Planning, Osman Nuri Torun; the Head of Economic Planning Department, Atilla Karaosmanoğlu; the Head of Social Planning Department, Necat Erder; and the head of Coordination Department, Ayhan Çilingilioğlu, refused to give false

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<sup>153</sup> In Kenan Mortan and Cemil Çakmaklı, *Geçmişten Geleceğe Kalkınma Arayışları* (İstanbul: Altın Kitaplar Yayınevi, 1987) p.168.

<sup>154</sup> Ibid., pp. 168-170.

information to the public and resigned in October 1962. Torun's words reveal the frustration of the early planners. "They decided on the removal of the section on income distribution. Our proposals on taxes were not accepted. Our proposals on land reform and State Economic Enterprises were also not accepted. To us, every rejected proposal looked like a partial destruction of a well-structured, interconnected and systematic body that we created in the course of two years, thanks to great and cautious efforts. All of us felt pessimistic about the future."<sup>155</sup>

No doubt, social planning in the form of population planning and educational planning constituted another line of attack against the plan and planners. As pointed out above, the social planning concept was a mere reflection of a search for a new consensus in a democratic setting provided by the 1961 constitution for the maintenance of capitalism in Turkey, or in other words, an inclusive strategy for labor that would become a significant player of the political system in the course of the 1960s.<sup>156</sup> However, the intentional emphasis on social planning brought about questions relating to the "philosophy of the plan." It is understood that the Turkish bourgeoisie was as blind as the politicians to the social planning issue. In its recommendations for the First Five Year Development Plan, the Union of Chambers called on the government "to determine openly the philosophy upon

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<sup>155</sup> Necat Erder et al., pp.69-70.

<sup>156</sup> See Mümtaz Soysal, "Plan ve Statüko: Plancılar Niye İstifa Ettiler?," *Yön*, no. 42 (3 October 1962). Soysal points out that the imbalances in the income distribution was the most important "threat" to the existing social order.

which the plan was based.”<sup>157</sup> In another report the detachment of the Turkish bourgeoisie from the introduction of social justice was stated more openly:

We must confine and clarify the expression “social justice” repeated more than once in the plan, which is open to different interpretations. The socialists and the adherents of the “welfare state” mostly use this expression in the following meanings: the redistribution of the wealth, preventing the entrepreneurs from profiting, the confiscation of the major part or the whole of their incomes, the distribution of the existing resources without considering either ethical or economic criteria on an equal basis among individuals. The plan must plainly express our rejection to such a social understanding.<sup>158</sup>

Another complaint that was often repeated by the representatives of the private sector was that they had not been consulted in the preparation of the plan.<sup>159</sup> While this was tended to be seen as a reiteration of the confrontational rather than consensual nature of the relations between the Turkish bourgeoisie and the bureaucracy,<sup>160</sup> it is important to remember that the planners were quite aware of the necessity of building a mutually beneficial relationship between the bureaucracy and the private business to achieve industrial transformation and developmental goals while managing to preserve its corporate integrity intact. In other words, as Peter Evans puts it, the developmental bureaucracy had to be “embedded” as well as “insulated” through “a concrete set of connections that link the state intimately

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<sup>157</sup> Türkiye Ticaret Odaları, Sanayi Odaları ve Ticaret Borsaları Birliği, *Beş Yıllık Kalkınma Planları Hakkında Özel Sektörün Görüş ve Mütalaaları* (Ankara: 1962), p.3.

<sup>158</sup> Türkiye Ticaret Odaları, Sanayi Odaları ve Ticaret Borsaları Birliği, *Kalkınma Planı Hakkında Özel Sektörün Görüş ve Dilekleri* (Ankara: 1962), p.7.

<sup>159</sup> *Ibid.*, p.22.

<sup>160</sup> Kemali Saybaşı, “Türkiye’de Özel Teşebbüs ve Ekonomi Politikası”, *ODTÜ Gelişme*, no. 13 (Fall 1976) p.91.

and aggressively to particular social groups with whom the state shares a joint project of transformation.”<sup>161</sup>

Yet this relationship should be “governed” by the state, in the last analysis, as Linda Weiss underlines. Such a relationship was envisaged to be established via the national colloquiums and the ad hoc Special Commissions by the planners following the example of the French planning agency.<sup>162</sup> Yet the private sector itself did not want to participate in the work of the Special Commissions responsible for surveying and planning specific sectors and industries. Thus, “most of the sector studies were made by the staff of the State Planning Organization and submitted later to the private sector for comment.”<sup>163</sup> It won’t be wrong to argue that the uncooperative stance of the private sector stemmed from its inability to govern the relationship. It is not coincidence that the most important request of the Union of Chambers set forth in the meetings with the government was the “active involvement of private sector in the preparation of annual programs rather than only representing information about the investment projects.”<sup>164</sup> In addition, they called on the government to form a permanent committee composed of representatives of

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<sup>161</sup> Quoted in Woo-Cumings, p.15.

<sup>162</sup> These commissions were called “modernization commissions” in France and “constitute the part of the planning machinery which is regarded as most original.” Vera Lutz, *French Planning* (American Enterprise Institute, 1965) p.14.

<sup>163</sup> İ. Öngüt, “The Private Sector in the Five-Year Plan” in S. İlkin and E. Günçe, p.164.

<sup>164</sup> Türkiye Ticaret Odaları, Sanayi Odaları ve Ticaret Borsaları Birliği, *Özel Sektörü İlgilendiren Başlıca Konular Hakkında Rapor (18-19 Ekim 1962 Tarihli Toplantıda İlgili Bakanlara Takdim Olunan Rapor)*, (Ankara:1962) p.11.

the private and public sectors to regulate the bases of cooperation in the implementation of the plan.

As noted above, the State Planning Organization was given a privileged status within the state by the coup makers and endowed with exceptional powers by the foundation law. However this status proved to be “incoherent,” as Batur noted, given the relationship between the SPO and the Ministry of Finance. Devoid of the support of the NUC government after 1961, “the Ministry of Finance still continued to occupy a ‘conservative’ and dominant position inside economic bureaucracy given the fiscal dependency of the realization of sectoral-investment targets of the plan.”<sup>165</sup>

According to Law No. 91 concerning the establishment of the SPO, the annual programs, prepared by the Central Planning Organization and approved by the Council of Ministers, had to be prepared prior to the budgets and the basic principles adopted in the annual programs would be observed in the preparation of the budgets by the ministry of finance. Thus the internal coherence between the two depended on the achievement of the collaboration between the SPO and the ministry of finance because both the annual programs and the budgets were being prepared at the same time of the year. However, due to the mutual distrust between these two institutions, in practice this resulted in a de facto division of work, according to which the ministry of finance retained the control over current

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<sup>165</sup> M. Hakan Batur, *From Rational Reformism to Neoliberal Centralism: Institutional Politics of Economic Bureaucracy in Turkey (1960-1984)*. Ph.D. Dissertation, Boğaziçi University, 1998, p. 163.

expenditures and the SPO controlled the investment expenditures. Consequently, many times, while the current expenditures exceeded the annual program targets, the investment expenditures fell behind these targets.<sup>166</sup> Moreover, the ministry of finance made some attempts to maintain its commanding position over the investment expenditures. For this end, a Committee on Current Economic Affairs was established within the ministry of finance soon after the formation of the SPO.<sup>167</sup> There is no doubt that this lack of coherence, which was damaging the realization of the plan targets, was a major concern for the planners. When Atilla Sönmez resigned his post as the head of Economic Planning Department only six months after the resignations of four top officials, he complained that the Budget of 1963 had been prepared without reference to the annual program and the revenue expectations of the budget were unrealistic.<sup>168</sup>

As Şaylan rightly observed, the conflict between the two institutions stemmed from the difference of their norm systems. The classical fiscal theory prevalent in the ministry of finance and the growth-oriented norm system of the SPO could not be reconciled.<sup>169</sup> The cadres of the ministry of finance were trained in practice and they reacted against to the new methods and developments in economic theory. The SPO, on the other hand, was staffed by young experts perfectly trained both within the organization by qualified foreign experts obtained through the UN and AID, and

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<sup>166</sup> Turgut Tan, *Planlamanın Hukuki Düzen* (Ankara: TODAİE Yayınları No. 154, 1976), p. 172.

<sup>167</sup> Batur, p. 164.

<sup>168</sup> *Yön*, no. 60, 7 February 1963. Sönmez's act was followed by the resignations of many other expert in the very early 1963.

<sup>169</sup> Gencay Şaylan, "Planlama ve Bürokrasi," *ODTÜ Gelişme Special Issue* (1981), p. 197.

in a foreign country for one or two years. So the conflict between the young SPO and the Ministry of Finance, which was one of the mainstays of Turkish bureaucracy along with the Ministry of Foreign Affairs, can be also read as a struggle of the latter to protect its prestige and position of dominance. The SPO was challenging this tradition as long as the political support behind it continued. Yet the Ministry of Finance managed to answer this challenge both in the meetings of the HPC and during the annual program-budget processes, as discussed above.

The early planners were well aware of the fact that unless the coherence between the norm systems of the state institutions was not provided, the success of the planned development efforts could not be achieved. For this reason, they put in the plan a comprehensive administrative reform. In effect, the efforts to make reforms in the public administration in Turkey had started during the 1950s with the establishment of the Institute of Public Administration for Turkey and the Middle East which conducted surveys in many fields such as the state economic enterprises, the personnel system and local governments.<sup>170</sup> However, it gained a new momentum in the early 1960s with the formation of the SPO. The introduction of planning-programming- budgeting system required the adjustment of the relationships within the state bureaucracy as well as the relationships between the bureaucracy and other social groups. In addition, the administrative reform was aimed to proceed in the direction of creating a higher performance level and bringing about a more effective bureaucracy to promote the planned economic

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<sup>170</sup> Metin Heper and A. Ümit Berkman, *Development Administration in Turkey: Conceptual Theory and Methodolog* (İstanbul: Boğaziçi University Publications, 1980), p.31.



development. The principles according to which the reorganization of public administration would be carried out were stated in the plan.

- The aims and objectives, the duties and responsibilities of administrations should be defined clearly and the necessary departments should be created in conformity with the objectives; the execution of planned coordinated work should be ensured.
- Functions, internal units, relationships and methods should be determined on clear-cut lines.
- The division of labor and collaboration should be ensured, the duplication of work and unnecessary work should be prevented and clear-cut relationships in the delegation of authority and responsibility should be established.
- A system of control which would ensure that work is carried out efficiently and according to program should be applied.<sup>171</sup>

The SPO conducted detailed surveys to make the necessary recommendations regarding the structural reforms in the central administration during the 1962-1966 period. In 1964, the Reorganization of Public Administration Commission was established within the organization. The Commission, composed of experts from relevant institutions and university members, prepared three comprehensive reports on the guiding lines and basic principles of reform and submitted them to the Prime Ministry in 1966.<sup>172</sup> However, the Demirel government and the governments in the 1970s did not take administrative reform seriously and did not follow through with them, although it also was given place in the second and third five year plans. Yet the planners continued to emphasize the significance of the problem as hopeless. In the 1967 annual program it was stated that “in the four years of implementation

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<sup>171</sup> State Planning Organization, *First Five Year Development Plan, 1963-1967* (Ankara: SPO Publications, 1963), p. 75.

<sup>172</sup> Ali Ümit Berkman, “Planlı Dönemde İdari Reform Anlayışı ve Uygulanması,” *ODTÜ Gelişme Special Issue* (1981), pp.214-215.

period, among the reasons of failure to reach the economic and social targets of the plan, the failure to realize the reorganization of public administration comes first.”<sup>173</sup> Similar expressions can be found in almost every annual program in the 1960s and 1970s.

### Conclusion

The economic and social policies pursued in the second half of the 1950s united the urban salary-earning groups and the industrial capital around a common opposition to the Democrat Party. In this context, the idea of planning as not much more than the coordination of investments and disciplining of public expenditures emerged. However, for the young reformist planners, the planning concept meant much more than coordination. Backed by young military officers, the early planners attained a position to shape the economic and social development path of Turkey. Yet, as Milor said, the alliance between the reformist wing of bureaucracy and industrial businessmen was only “conjunctural.” After the transition to multi-party democracy and reestablishment of hierarchy in the military, the early planners were confronted with a wide-range coalition of forces of private business and other bureaucratic agencies, who felt the threat of losing their position in the state prior to the establishment of SPO. As argued in the beginning of this chapter, the early planners wanted to transform the Turkish economy into a modern, rational capitalist economy via a set of reforms. However, the politicians were not ready to sacrifice

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<sup>173</sup> In Berkman,p.209.

their cliental networks and did not want to risk their political support. Besides, the private business did not want to be constrained by the plan discipline. Having seen that the target growth rate in the plan had lost its chance of realization, due to the unwillingness of politicians to carry out the required reforms the early planners became frustrated and resigned. Those who remained in the organization could not manage to stabilize their position within the administration.

The first five year plan period ended in 1967. In 1966, the preparations for the second five year plan started under a new government. The JP, under the leadership of Süleyman Demirel, was declared to be pro-business and known to be hostile to the idea of planning. However, as will be discussed below, once in power, the JP would chose to modify its attitude towards planning so as to manage it as a means to stimulate the capital accumulation in private hands through a growing system of incentives. Under these conditions, the SPO would be drawn into the daily implementation of private sector projects, which would result in the further degeneration of the organization by the end of the 1960s.

## CHAPTER FOUR

### THE TRANSFORMATION OF PLANNING IN THE LATE 1960s

In October 1965, the Justice Party, successor to Menderes' Democrats, won a resounding electoral victory and received the absolute majority of the assembly seats with fifty-three percent of the vote. The Justice Party was frequently called pro-business and known for its disdain for the idea of economic planning. In its daily political rhetoric, the JP frequently worked on the idea that economic growth did not necessitate planning and that free enterprise should be emancipated from the "dead hand of the bureaucracy."<sup>174</sup> However, when it came to power, the JP would modify its attitude towards planning. Immediately after the elections, Süleyman Demirel, the young and pragmatic leader of the JP, informed the press that his party was not against planning as long as it stayed advisory to the private sector, relying on a coherent set of incentives and supportive measures. However, Demirel's attitude towards the State Planning Organization was a far cry from being sympathetic. He declared that some revisions should be made in the organization so as to give it with the techniques and approaches of modern administrative sciences that the SPO lacked so far. To this end, Demirel declared, new cadres would be

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<sup>174</sup> For an analysis of the JP's election campaign and the basis of appeal of the JP, see W. B. Sherwood, "The Rise of the Justice Party in Turkey," *World Politics* 20, no. 278 (October 1967).

recruited in the SPO. He also emphasized the need to harmonize the views of the planning organization with the philosophy of the new government.<sup>175</sup>

The representatives of the JP exhibited their discomfort with the autonomous status of the SPO within the state apparatus on many occasions. Demirel's speech in the parliament on the acceptance of the 1966 budget of the SPO is exemplary in that sense: "My view concerning the state departments' taking orders from the government is eternal. This also includes the SPO because if departments come to the point where they do not receive orders from the government, the possibility to govern the state vanishes, chaos begins. The genesis of a state within the state means the falling of the state into a state of insolvency."<sup>176</sup>

It is worth mentioning, as will be discussed in detail below, that the JP did not attempt an open confrontation with the planners in its early days in power. For instance, it did not remove the old planners from office. Such an act would have incurred the wrath of certain segments of the bureaucracy as well as the intellectuals for whom the SPO was still a prestigious institution that would shape the social and economic development path of Turkey. Rather than that, the JP elaborated a different strategy, according to which the operations of the SPO would be paralyzed through establishing a "dual structure" within the organization. To this end, the recruitment policy would be manipulated politically and the organization would be over-staffed by a new generation of experts. Furthermore, the routine meetings and correspondences between the SPO and the government, even the meetings of the High Planning Council, would be delayed continuously. The reports and

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<sup>175</sup> "Demirel'in Demeci ve Devlet Planlama Teşkilatı," *Forum* 18, no. 278 (1 November 1965).

<sup>176</sup> In Batur, p.177.

recommendations of the organization related to current economic issues were not even received by the ministries and the Prime Minister.

This strategy of the JP was so successful that in its first year in power the relations between the government and the SPO were almost non-existent. The formulation of the economic policies was brought outside the organization.<sup>177</sup> On the other hand, the government was quite receptive to the demands of the private sector. The Union of Chambers had day-to-day contacts with the ministries. In view of the Union's claim, the government fulfilled most of its important demands.<sup>178</sup>

The JP's political control over the staff policy deteriorated the internal coherence of the organization gradually. In a newspaper article Kenan Bulutoğlu wrote that the SPO was losing its characteristic of being a modern, western-type planning agency, akin to those in France, Italy and Japan. He wrote that the expert posts were over-staffed by those who had no backgrounds in economics. Those new technicians with engineering backgrounds were employed on a contract basis and were not required to pass through any examinations in their subject and on foreign language. Thus the SPO was oriented toward technological planning by engineers with little sense of economic efficiency. There also emerged striking discrepancies between the wages of these two groups of planners.<sup>179</sup>

The departure of Memduh Aytür, the fourth undersecretary of the SPO, from the organization on 28 February 1966 enhanced the view on the part of the planners

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<sup>177</sup> "Demirel Görülmemiş Kalkınma Taaruzuna Girişiyor," *Yön*, no.212 (21 April 1967); see also "Plan, Demirel ve Tinbergen," *Forum*, no.289 (15 April 1966).

<sup>178</sup> Kemali Saybaşı, "Chambers of Commerce and Industry, Political Parties and Governments: A Comparative Analysis of the British and the Turkish Cases," *METU Studies in Development*, no. 11 (Spring 1976), p.129.

<sup>179</sup> Kenan Bulutoğlu, "Plan Bunun Neresinde?" *Cumhuriyet*, 13 October 1966.

that the new government did not want to work with the old cadres in the planning organization.<sup>180</sup> Henceforth, the SPO would be extremely susceptible to the pressures stemming from the government. Memduh Aytür was the last representative of the “strong” undersecretaries in the history of the State Planning Organization. He firmly believed in the pivotal role of planning within the economic administration and worked passionately until his last day in the organization to protect the integrity of the SPO from outside pressures. It is worth mentioning that Memduh Aytür did not leave the organization by his own will; his contract was not renewed by the prime ministry.

The appointment of Orhan Çapçı as the deputy undersecretary of the SPO on 22 March 1966 was not welcomed within the organization. Çapçı had been working in the Coordination Department under the supervision of Ali Nejat Ölçen.<sup>181</sup> He was an old-fashioned man and, in the eyes of planners, he lacked the energy, competence and the determination to manage the post to which he was appointed. Instead of dealing with the mounting problems of the organization, Çapçı preferred to muddle through his post. In the press it was reported that the planning agency was losing its role as a consultant to the government. It was also noted that the prime minister had hired “special consultants” in order to by-pass the SPO.<sup>182</sup>

Furthermore, the reports and the working papers of the experts that were considered to be inimical to the prerogatives of the JP government were concealed

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<sup>180</sup> See Ali Nejat Ölçen, *Devlet Yokuşu* (İstanbul: Doruk Yayıncılık, 1996), p.174.

<sup>181</sup> *Ibid.*, pp.176-177.

<sup>182</sup> *Cumhuriyet*, 22 May 1966; Beşir Hamidoğulları, “Planın Dünü ve Bugünü,” *Forum* 19, no.292 (1 June 1966).

from the public. For instance, at the very beginning of October, it appeared that a report on the national income distribution had long been disregarded by Orhan Çapçı.<sup>183</sup>

The report had been prepared by a specialist, Tolgay Çavuşoğlu, and put forth openly the unjust structure of the income distribution in Turkey. It seems that this last incident triggered the expected resignations in the organization though Çapçı denied the responsibility.<sup>184</sup>

The general secretary of the SPO, Haydar Aytekin; specialist Ülkü Egeci; consultant Adnan Erdaş; manager of the Branch for Long Term Planning Yalçın Küçük; and finally Baran Tuncer, the Head of Economic Planning Department, resigned from the organization one after another at the beginning of October 1966.<sup>185</sup> Their resignations were followed by those of two valuable specialists, namely Enver Ergun and Günal Kasım. After his resignation, Baran Tuncer presented a memorandum to the prime minister in which he complained that the government did not take the suggestions of the planning agency seriously, that the reports written by the planning experts were disregarded and that the periodic meetings related to current economic issues were delayed.<sup>186</sup> It was written in the press that the removal of the land reform from the “Strategy of the Second Five Year Development Plan” had been strongly opposed by Tuncer and the planners

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<sup>183</sup> Orhan Duru, “Yayınlanması Durdurulan Milli Gelir Dağılımı Raporunu Açıkıyoruz,” *Cumhuriyet*, 3 October 1966.

<sup>184</sup> *Cumhuriyet*, 4 October 1966.

<sup>185</sup> *Cumhuriyet*, 1 October 1966. See also Ölçen, p.190.

<sup>186</sup> *Cumhuriyet*, 5 October 1966.



around him.<sup>187</sup> Similarly, Yalçın Küçük would later write in a newspaper article that they had decided to resign from the organization after seeing that the government was unwilling to put in the strategy document those measures required to realize the ambitious objectives set out in the plan.<sup>188</sup>

The resignations of the planners enhanced the level of anxiety in certain circles regarding the future of the planned development path of Turkey. Some observers of the time commented that the resignations revealed the government's intention to disestablish the SPO.<sup>189</sup> However, the course of the events would exhibit that the real strategy of the Demirel government was not to de-institutionalize planning, but to manipulate it politically so as to eradicate the anxieties of the private business by emancipating it from the so-called "plan discipline."

The appointments for the top positions in the SPO were made at the very beginning of 1967. Turgut Özal, who had been working in the Critical Sectors Branch within the Economic Planning Department, was appointed as the undersecretary of the SPO on 31 January 1967.<sup>190</sup> Nevzat Yalçıntaş and Ekrem Ceyhan were appointed as the heads of the Social Planning Department and Coordination Department respectively. Günal Kansu had been appointed as the Head of the Economic Planning Department just before them. Çölaşlan argues that Mehmet Turgut, who was from the "conservative wing" of the Justice Party, and

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<sup>187</sup> *Cumhuriyet*, 18 November 1966.

<sup>188</sup> Yalçın Küçük, "Hükümet-Planlama İlişkileri," *Milliyet*, 27 November 1976.

<sup>189</sup> See for example Nadir Nadi, *27 Mayıs'tan 12 Mart'a* (İstanbul: Sinan Yayınları, 1972), p.348. See also Üstünel, p. 113.

<sup>190</sup> Sönmez notes that Özal's role within the department was negligible before his appointment as undersecretary. Necat Erder et al., p.65.

Necmettin Erbakan, the General Secretary of the Union of Chambers, were effective in the appointment of Özal as the undersecretary.<sup>191</sup> Özal was known for his intimacy with this group. Ölçen's observation confirms Çölaşan's claim. He writes that Aydın Yalçın, who belonged to the "liberal wing" of the JP, was a strong opponent of Özal's appointment.<sup>192</sup>

In effect, Demirel was himself the representative of the liberal wing within the party. However, as of early 1967 the conservative wing, which was also known as the nationalist-sacredist faction, was consolidating itself under the leadership of Professor Osman Torun, who accused Demirel of "sliding to the left."<sup>193</sup> In that respect, these appointments in the SPO can be regarded as Demirel's search for compromise with the conservative wing of the JP. Demirel no doubt thought that the appointment of Özal and his circle to the top positions in the SPO would calm down the conservatives within the party for a while.

#### Preparation of the Second Five Year Plan

The preparations of the Second Five Year Plan had been started before the new appointments in the SPO. In fact, the macro model of the plan had been prepared by Yalçın Küçük, Ülkü Egeci and Tinbergen's assistant, Dr. Sandy.<sup>194</sup> However, the

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<sup>191</sup> Emin Çölaşan, *Turgut Nereden Koşuyor?* (İstanbul: Tekin Yayınevi, 1989), p.37.

<sup>192</sup> Ölçen, p.208.

<sup>193</sup> Ahmad, p.242.

<sup>194</sup> Ölçen, p.190; Batur, p.184.

final document which was accepted by the High Planning Council would be prepared by this new team of planners.

Three days after his appointment, Özal met with the representatives of the private sector. In this meeting the business circles expressed their contentment with the new appointments. Sırrı Enver Batur, the president of the Union of Chambers, said that they knew Özal for his sympathy to private business and that the relations between the private sector and the SPO would become closer thereafter. It is noteworthy that, in contrast with the preparation period of the first plan, the private sector participated in the preliminary works of the second plan. It can be argued that the “cooperative” stance of the private sector stemmed from its awareness that they spoke the same language with the new cadres in the SPO.

In this meeting, the Union of Chambers expressed the need for increased import substitution and called for an extending encouragement system as a means to achieve rapid industrialization. The Union of Chambers also reiterated the opinion that “setting prices wrong” in the SEEs was crucial for the maintenance of the cooperation between the private and public sectors.<sup>195</sup> Moreover, the Union of Chambers prepared a draft law for the encouragement of industry and presented it to the government, demanding that it be implemented during the Second Five Year Plan period.<sup>196</sup> However, the most important demand of the private sector was related to the re-definition of the relative roles of the public and private sectors in the development process. In line with the private sector’s demands, Demirel

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<sup>195</sup> Eyüp Karadayı, “Özel Sektör ve Kalkınma Planımız,” *Yeni Sanayi Dünyası*, no. 42, (January 1967), pp.4-7.

<sup>196</sup> *Türkiye İktisat Gazetesi*, 2 March 1967.

announced that the Second Five Year Plan would be more “flexible and elastic” so as to enhance the ability of the government to support the private sector.<sup>197</sup>

The State Planning Organization completed the Second Plan after the arrival of the new cadres in the spring of 1967. However, this process was not free from some conflicts and discussions. One of these conflicts within the planning organization occurred in the calculations of the foreseen savings gap. The expected total savings could be predicted on the basis of various past trends, the tax structure, and the marginal propensities to save within the macroeconomic model of the plan.<sup>198</sup> The likely outcome of these calculations was that the planned investment exceeded the predicted savings. Then the planners had to deal with the problem of raising the level of total savings to the required amount. This involved some forecasts of expected additional revenues from given tax changes, because the plans were obligatory for the public sector and only indicative for the private sector. That is, the closing of the savings gap would only be possible by increasing public savings through additional tax revenues. This would, inevitably, bring the issue of tax reform back onto the agenda of the policy makers. However, a tax reform, like the other structural reforms that were suggested by the early planners, was completely out of the vision of Özal and his circle inside the SPO. For this reason, Özal wanted to conceal the savings gap calculated by the planning specialists. Claiming that the specialists had underestimated the contribution of private savings, he insisted that a

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<sup>197</sup> Üstünel, *Kalkınmanın Neresindeyiz?* p.273. See also Vural Savaş, *Birinci Beş Yıllık Kalkınma Planı* (İstanbul: İktisadi Araştırmalar Tesisi, 1966).

<sup>198</sup> Maxwell J. Fry, *Finance and Development Planning in Turkey* (Leiden: E. J. Brill, 1972), pp. 14-15.

higher private propensity to save<sup>199</sup> should be put in the plan document that would be presented to the High Planning Council. Özal's claim was also contested by Günal Kansu, who believed that the specialists' calculations were realistic. The discussions on the issue were even carried on in front of Demirel.<sup>200</sup> However, at last, a compromise was accepted with the initiation of the prime minister.

In that respect, it should be noted that Demirel believed that the domestic savings gap could be compensated by the increased flow of foreign credits. The First Plan had predicted that the "economic viability" could be obtained towards the end of the Second Plan period. However, the Second Plan put the date of viability as roughly the middle of the Third Plan in 1975. The estimates for the Second Plan revealed a need of gross foreign aid of about 250 million dollars a year. Of this amount, 100 million dollars would be needed for debt amortization and 150 million dollars would be net foreign savings (net aid).<sup>201</sup> Yet the consortium, which was composed of Western creditor countries and had been established under the auspices of the OECD in 1963, was anxious to increase the proportion of assistance given in the form of project aid. During the First Plan period the payments of project credits averaged about fifty-five percent of net aids.<sup>202</sup> However, Demirel

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<sup>199</sup> The private propensity to save was only 7.4 percent in the first plan period. The early planners had calculated that a partial transfer of private disposable income to the public sector through a tax reform would reduce the private consumption about nine times than it would reduce private savings. It is noteworthy that the early planners and the remnants of this group in the SPO believed that, having assumed this economic rationality, the policymakers could decide on whether to use the additional public savings to finance private investments or public investments. On the subject, see Besim Üstünel, "Problems of Development Financing: The Turkish Case," *Journal of Development Studies*, no. 3, (1967), pp. 135-138.

<sup>200</sup> Batur, p.191.

<sup>201</sup> Devlet Planlama Teşkilatı, *Kalkınma Planı, İkinci Beş Yıl* (Ankara: DPT, 1967), pp. 94-96.

was also able to rely on the Turkish-Soviet Agreement on Financial and Technical Aid program signed on 17 April 1967, according to which the USSR would extent principally about 200 million dollars in the first step as project credits.<sup>203</sup>

Another source of conflict in the preparation period of the Second Plan was the issue of *imam*-orator schools. In the 1960s, Turkish industry suffered from a shortage of skilled labor and the encouragement of vocational-technical education was perceived to be of crucial importance to meet that need. Accordingly, the specialists in the Social Planning Department imposed the idea that the graduates of vocational-technical schools, including those of *imam*-orator schools, continued higher education in their branches. Yet Özal objected that the *imam*-orator schools should be kept exempt from that project. The High Planning Council rejected Özal's proposal and the section on education was accepted as written by the planning specialists. However, during the parliamentary debates over the Second Plan, it appeared that the page relating to the vocational-technical education in the original document was replaced with a new one that was written in line with Özal's proposal. It was a big scandal and Özal was held responsible for it. But, interestingly, Demirel chose to suppress this scandal, although the liberal wing within the JP wanted him to take action against the "reactionary grouping" in the SPO.<sup>204</sup>

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<sup>202</sup> State Planning Organization, *Consortium Report on the Second Five Year Development Plan* (Ankara, 1968), p.99.

<sup>203</sup> İsmail Cem, *Tarih Açısından 12 Mart*, vol. 2 (İstanbul: Cem Yayınevi, 1973). See also Mortan and Çakmaklı, pp.252-261. According to the agreement, the USSR agreed to build an oil refinery, an aluminium plant, a sulphuric acid factory, an iron and steel mill, and a lumber factory. Turkey agreed to pay back in goods.

<sup>204</sup> Ölçen, pp.218-220; Batur, p.192; Çölaşan, pp.54-55.

## Incorporation of the SPO into the Incentive Implementation Process:

### The Enactment of Law No. 933

The fiercest debates in the National Assembly on the Second Plan were related to the implementation section of the plan and the enactment of the so-called Implementation Law immediately after the passage of the plan document. The implementation section of the Second Plan underlined the “new look” of planning on the role of the private sector. The Second Plan document maintained that the period from 1968 onwards would witness the transfer of an increased amount of funds from the public to the private sector. The SPO was envisaged to play a considerable part in deciding the allocation of these new funds, which were to be transferred each year from the budget according to the priorities set out in annual programs. For this end, the SPO was to establish closer links with the private sector and encourage the latter to carry out new investment opportunities. The government would also provide new flexibilities in taxes to encourage investment.

“Law No. 933 Concerning the Implementation Fundamentals of the Second Five Year Development Plan”, which was also called the “Implementation Law,” was enacted right after the Second Plan on 28 July 1967. Apart from introducing new incentives to the private sector, this law aimed at reducing the so-called “bureaucratic red tape” by endowing the political power with sufficient authority and altering the traditional function of the SPO by bringing the organization into the incentive implementation process.

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Before proceeding further into the details of the objectives and content of Law No. 933, a brief look at the incentive measures taken during the first plan period is necessary. After the withdrawal of the pre-war Law for the Encouragement of Industry in 1942, the First Five Year Development Plan introduced, for the first time, a series of new incentives.

With Law No. 202, the practice of investment allowance was introduced for the first time in Turkey.<sup>205</sup> This law, which came into effect on 19 February 1963, consisted of rebates on income and corporate tax as for investment in new plants. The tax rebate scheme applied to building construction, machinery and equipment. The percentage of tax rebates was set as thirty percent for industrial investments and forty percent for agricultural investments.<sup>206</sup>

From the point of view of realizing imports according to plan targets and encouraging exports, two measures were taken. Law No. 261, which was enacted on 5 July 1963, established the practice of tax rebate on exports.<sup>207</sup> The purpose of the law was to provide subsidies, within certain limits, to the export of industrial products through the provision of tax and duty exemptions and tax rebates. An Export Tax Rebate Commission was established to determine the amounts and values of the products that would benefit from tax rebates. The Export Tax Rebate Commission was composed of representatives from the SPO, the Ministry of

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<sup>205</sup> Rıza Aşıkoğlu, *Türkiye'de Yatırımları Teşvik Tedbirleri* (Eskişehir: AÜ Yayınları No.278, 1988), pp.18-19.

<sup>206</sup> It is worth reminding that the practice of investment allowance was recommended by the Tax Reform Commission of the Ministry of Finance in 1961 and was severely criticized by the early planners.

<sup>207</sup> Erhan Bener, "Foreign Trade Regime of Turkey," in ESSCB, *Foreign Trade and Economic Development* (İstanbul: 1968), p.186.



Finance, the Ministry of Industry, the Ministry of Commerce, the Ministry of Customs, and the Union of Chambers.

A second foreign related incentive measure was provided by Law No. 474, dated 15 May 1964, which gave the government the authority to make changes in tariffs by reducing tax rates to zero whenever necessary to reach the plan targets.<sup>208</sup> The Law also provided the government with the possibility of allowing the importers to pay duty payments and import tax by installment within a maximum of five years.

These incentive measures during the First Plan period, however, were prone to various criticisms from the private sector. In the first place, the private business had complaints about the ambiguities concerning the percentages and amounts of tax rebates for exports. For instance, the Export Tax Rebate Commission had not fixed the initial tax burden on many export goods.<sup>209</sup> A second source of complaint stemmed from the “unsettled nature of bureaucratic procedure in the incentive implementation process.” The industrialists complained that the lack of coordinated division of labor between the related ministries and institutions had been slowing down the implementation process, which had brought about unnecessary delays in the payment of tax rebates. There were also complaints about the delays in the practice of investment allowance because of the complicated procedures between the Ministry of Finance and the SPO in the implementation process. It was said that there was great confusion among the businessmen concerning the authorities and

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<sup>208</sup> Ibid., p.185.

<sup>209</sup> Ayhan Rota, “İhracatta Vergi İadesinin 3,5 Yıllık Tatbikatı,” *Ticaret ve Sanayi*, no.13 (October 1967), p.11.

responsibilities of the governmental bodies within the system.<sup>210</sup> Especially the small enterprises were said to be excluded from the system.

The last, but an important, criticism of the incentive system during the First Plan period was that the existing amounts and percentages of rebates were not found to be sufficient for accelerated private capital accumulation. The representatives of the business class called for an increase in the ceiling ratios of allowances for investments while the exporters demanded the promotion of tax rebates so as to cover the price discrepancies between Turkish goods and those from the outside world.<sup>211</sup>

The preparation of the Implementation Law was an attempt to reduce the anxieties of the private business concerning the implementation of the incentive system. This law was written by Yılmaz Ergenekon, who belonged to Özal's close circle. Mortan and Çakmaklı claim that even the bureaucrats in the SPO and in other ministries were excluded from the preparation process of the law and they saw it first in the Plan-Budget Mixed Commission.<sup>212</sup> In the Plan-Budget Commission, and later in the Assembly, the law was severely criticized, not only by the opposition parties, but also by some representatives of the ruling government. For instance, it was recorded that even the finance minister, Cihat Bilgehan, was surprised by the scope of the fund transfer mechanism introduced in the law.<sup>213</sup>

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<sup>210</sup> Aşıkoğlu, p.21; Güngör Uras, *İkinci Beş Yıllık Kalkınma Planı Özel Sektör İçin Neler Getiriyor* (İstanbul: Türkiye Ticaret Odaları, Sanayi Odaları ve Ticaret Borsaları Birliği Yayınları, 1967), p.12.

<sup>211</sup> Rota, p.11; see also *Cumhuriyet*, 29 June 1967.

<sup>212</sup> Mortan and Çakmaklı, pp.269-270.

<sup>213</sup> *Ibid.*, p.270.

Özal would later describe the objectives of the Implementation law at the meeting of the Consortium for Turkey as follows: “Once a national long-term plan is formulated and adopted, the policies and directives embodied in the Plan must be carried out by the administration. The determinant factor for the success of the plan is then, above all, the effectiveness of implementation. To simplify the decision making process and the inter-departmental relationships, the Implementation Law was enacted by our parliament. This law provides increased flexibility to the Government, short-circuiting complicated bureaucratic procedures.”<sup>214</sup> Similar arguments in favor of the law can also be found in Demirel’s speech in the parliament.

The 1963 Annual Program foresaw some fifty-four measures. Among them only eleven could be legalized. I do not give the numbers for 1964, 65, 66 and 67... These numbers underly a bitter reality: Our constitution anticipates planned and rapid development and it also anticipates that the Assembly would legislate on certain bills and motions in order to get the necessary precautions. However, such bills unfortunately wait their turn in sub-commissions and, as a result, fail to be promulgated. This parliament must insist on the resolution of this problem... Both the central administration and its provincial branches are vulnerable to this bureaucratic paralysis and timidity.

This bureaucratic mentality prevents the application of these constitutional measures and the requirements of the Second Five Year Development Plan. Thus, both the legislative organ and the administration have to change their mentality in this new term of the Second Development Plan.<sup>215</sup>

The provisions of the Implementation Law was grouped under three headings.<sup>216</sup> With regards to financing, it was stated that funds could be established

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<sup>214</sup> “Consortium Report on the Second Five-Year Development Plan,” *Planning Spec. Issue* (May 1968), p.5.

<sup>215</sup> In Ferruh Bozbeyli, *Kalkınma ve Planlama: Adalet Partisi, Belgeler* (İstanbul: Ak Yayınları, 1969), pp.280-281.

with the purpose of making transfers in the form of loans from the general budget to sectors, the development of which were envisaged in the plan targets. The principles and conditions to be detected in the use of the funds would be declared in the annual programs. A section entitled "Development and Encouragement Funds" would be opened each year in the budget of the ministry of finance.

It was also recorded that appropriations would be provided in the section of the General Budget Law concerning the ministry of finance to meet the share of the state in the capital of joint ventures. Thus joint ventures would be promoted in areas which did not provide the sufficient probability for the private sector.

With regards to the promotion and regulation of investments and exports, the Implementation Law included new measures concerning investment allowances, customs duties exemptions, and tax rebates. With the purpose of promoting investments in conformity with the plan and annual documents, the ceiling ratio of investment allowance was raised to 80%. The Council of Ministers was authorized to take all measures in order to ensure the cooperation of all authorities and to speed the formalities pertaining to licences and permits for all kinds of investment.

In order to promote exports, loans could be extended to exporters from the funds provided in general and annexed budgets, and from the appropriations to be made from foreign sources through the intermediacy of exporters' professional associations and their unions. The export goods which would benefit from the funds would be determined by the Council of Ministers. According to the sectors of activity, partial or total exemptions from customs duties and import taxes levied on

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<sup>216</sup> See "Kalkınma Planının Uygulanmasına Dair Kanun," in SPO, *Kalkınma Planı, İkinci Beş Yıl*, pp.643-646.

investment goods were also provided. These exemptions would be regulated by the decrees of the Council of Ministers.

The most important part of the law was, however, the establishment of an Investment and Export Encouragement Bureau charged with the implementation of the measures provided in the same law as well as the encouragement measures provided in other laws. The functions of the Export Tax Rebate Commission were also transferred to this new bureau which was linked to the Prime Ministry. However, soon after its establishment, the Bureau was incorporated into the SPO with a prime ministerial notice.<sup>217</sup>

Thus, this law made the SPO a part of the executive machine in a politically very sensitive area. Undoubtedly, that was in stark contrast to the SPO's traditional function as an institution giving technical economic advice to the government, but not primarily engaged in its implementation. Second, very wide powers were given to the Council of Ministers in areas which previously would have required parliamentary legislation. The law enhanced the government's ability to divert public funds to the private sector or to joint ventures and to speed up the taking of measures to encourage investments and exports.

The establishment of the Investment and Export Promotion and Encouragement Bureau was very important in the sense that it reflected the search to provide an independent status to the established kernel of incentive implementation.<sup>218</sup> In the Consortium Report on the Second Plan, this search was stated as follows:

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<sup>217</sup> For the Prime Ministerial notice dated 15 September 1967, see Devlet Planlama Teşkilatı, *Yatırımların ve İhracatın Teşviki ve Uygulama Esasları* (Ankara: 1968), p.55.

<sup>218</sup> Batur, p.207.

The Bureau will aim at the encouragement of industry and exports. The decisions will be taken very rapidly and not by the present rather slow methods of committees representative of several departments. The decisions can be made *ad hoc and tailored to particular enterprises or particular investments...* Under the new administration, entrepreneurs will no longer have to go to different ministries for permission on the various aspects of an investment project. This will all be handled *centrally* by the Bureau who will approach the ministries for clearance on behalf of the applicant. It is possible that branches of the Bureau may be opened in the principal cities and ports for direct application by companies.<sup>219</sup>

The decree putting into effect the 1968 Annual Program was a clear indication of the government's determination to make use of the possibilities created by the Implementation Law. This decree put into effect all the economic measures made possible by the law.<sup>220</sup> For instance, important reductions and total exemptions in customs duties were provided for the new investments in the industrial sector. It was calculated that the practice of partial or total exemptions from customs duties and import taxes levied on investments goods alone accounted for the 18.7 % of decrease in the private sector investment costs in 1968.<sup>221</sup> Thus, the Bureau started to handle all operations concerning the encouragement of investments and exports with the 1968 Annual Program.

The Bureau was transferred into a separate department within the State Planning Department by a decree on 9 May 1968.<sup>222</sup> In this way a new Incentive

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<sup>219</sup> "Consortium Report on the Second Five Year Development Plan," *Planning Spec. Issue* (May 1968), p.105-106.

<sup>220</sup> DPT, *1968 Yılı Programı, İkinci Beş Yıl* (Ankara: DPT, 1968).

<sup>221</sup> Özhan Uluatam, *Yatırımları Teşvik Edici Vergi Politikası* (Ankara: AÜSBF Yayınları, 1971), p.123.

and Implementation Department was formed as the fourth department inside the SPO. The first head of this new department was Yılmaz Ergenekon, the creator of the Implementation Law and close friend of Özal. With the formation of the new department inside the SPO, the functions given to the Committee on the Encouragement of Foreign Capital was also transferred to this department. As some observers claimed, the formation of the Incentive and Implementation Department constituted a turning point in the history of the SPO, due to the fact that it altered the institutional kernel of the organization entirely after 1968.<sup>223</sup> Through the department, the SPO would be drawn into the every day struggles of politics, from any kind of operations concerning the encouragement of investments to the implementation of encouragement of foreign capital and to the transference of the expropriated land to private investors. Therefore, since the institutional framework of the SPO could not insulate itself from the demands of powerful interest groups, planners became “overloaded” by erratic demands emanating from the political realm.

With the formation of this department, the units inside the organization and the number of staff increased rapidly over time as a result of the enlarged functions in the daily implementation of incentives. Seven new units were established by 1970 within the Incentive and Implementation Department. These were namely the Directorate of Investment Encouragement, the Directorate of Customs Reduction, the Directorate of Export Promotion, the Directorate of

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<sup>222</sup> Mehmet Emin Bayram, *Türkiye Planlama Teşkilatının Hukuki ve İdari Yapısı ile İlgili Meseleleri ve Çözüm Önerileri* (Ankara: DPT Yayını, 1994), p.113.

<sup>223</sup> Batur, p.207; Tan, p.50.

Organization and Follow-up, the Directorate of Project Evaluation, and the Directorate of Foreign Capital.<sup>224</sup>

Articles 4 and 7 of Law No.933 introduced a new degree of flexibility on the recruitment of civil service and to the possibilities of promotion within the civil service. Article 4, which established the Bureau, stated that “personnel on loan in sufficient numbers from the relevant ministries and for temporary missions and experts under contract could be employed in this Bureau.” Article 7 added that appointments could be made to the positions in the SPO which required specialization for the implementation of the plan and that such appointments would not be subject to limitations imposed by vested rights on salaries and length of service. The salary that would be paid to the appointee would not constitute a vested right. Therefore it was made possible to employ new staff under contract on a temporary basis at any rate which was considered to be necessary. Furthermore, the Council of Ministers was authorized to determine the basis of employment of personnel under contract.<sup>225</sup>

It was recorded in the press that the temporary and contract based staff policy had found a legal base in the organization with these provisions of the Implementation Law.<sup>226</sup> However, the mass recruitment of temporary and contract based staff became a norm after 1967. The ratio of permanent staff was 100% when the SPO was established. This ratio would fall to 9.7% by 1969. As a consequence

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<sup>224</sup> Batur, p. 210.

<sup>225</sup> “Kalkınma Planının Uygulanmasına Dair Kanun” in SPO, 1967.

<sup>226</sup> Beşir Hamitoğulları, “Plan’ın Yeni ve Tehlikeli Eğilimleri,” *Forum* 20, no.317 (15 June 1967), p.14.



of the expansion in its area of interest, the number of cadres employed raised dramatically in this period. By 1969, the number of staff reached approximately six hundred.<sup>227</sup>

With the mass use of contract based employment, in the Incentive and Implementation Department, the growing discrepancies between the salaries of planners was another source of polarization within the SPO. The recruitment principles of these new cadres in the Incentive and Implementation Department were politically manipulated by the government and the high echelon of the SPO, and were based not on competence, but on the cultural as well as political linkages. Among those who were employed under contract with high salaries were some who would become important figures of right-wing politics in the 1970s and 1980s. Among them, the names of Hasan Celal Güzel, Mehmet Dülger, Ekrem Pakdemirli, Yusuf Bozkurt Özal, Hüsnü Doğan, Temel Karamollaoğlu, Yahya Oğuz, Yılmaz Ergenekon, Vehbi Dinçerler, Avni Akyol, Agah Oktay Güner, and Kutlu Savaş are worth mentioning.<sup>228</sup> The polarization between this group, frequently called “*takunyalılar*”, and the remnants of early planners in the organization was also reflected in the establishment of a Planners’ Trade Union (PLANSEN) in 1968. However, the PLANSEN project was short-lived because the early planners became few in number and were put in a dysfunctional position within the organization.<sup>229</sup>

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<sup>227</sup> PLANSEN, *Devlet Planlama Teşkilatında Aksayan Yönleriyle Personel Politikası* (Ankara: DPT Plancılar Sendikası No.1, 1971).

<sup>228</sup> Çölaşan, p.43.

<sup>229</sup> Ölçen, pp.246-247.

As fund transfer mechanisms became more centralized in the Incentive and Implementation Department, the SPO also came to be the institutional center of the struggle among the businessmen seeking state support. That is because the businessmen had to obtain the Department's approval for their projects if they wanted to benefit from the Development and Encouragement Credits or to obtain the "exemption certificate" for total or partial exemption from customs duties. There were also foreign exchange quotas established by the SPO open to use for private sector investments. The Incentive and Implementation Department was authorized to give project-based "incentive certificates" to the private entrepreneurs that could benefit from foreign exchange allocations.<sup>230</sup>

However, the competition to obtain these certificates and benefit from the incentive measures deepened the cleavage between the industrial and commercial bourgeoisie and between the different measures of the country. As mentioned above, the Anatolia-based, small industrial and commercial businessmen had been the major complainants of the incentive system prior to 1967. They hoped that the implementation law would answer their requests for a "fair allocation of incentives."<sup>231</sup> However, the size of the investment was accepted as the primary criterion of the encouragement measures in practice. For instance, to benefit from the Development and Encouragement Funds, the capacity of the investment had to be above a certain value.<sup>232</sup> Thus, it appeared soon after that İstanbul-based big

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<sup>230</sup> See DPT, *Yatırımların ve İhracatın Teşviki ve Uygulama Esasları*, (Ankara: DPT ,1968); see also Hulki Alisbah, "2. Beş yıllık Plan ve Uygulama Kanunu," *İstanbul Sanayi Odası Dergisi*, no.25, (15 March 1968).

<sup>231</sup> *Cumhuriyet*, 29 June 1967.

industrialists continued to be the major beneficiaries of the extending incentive system.<sup>233</sup> In a meeting of the Union of Chambers in 1968 a group of representatives led by Erbakan criticized the incentive implementation and complained that the credits and foreign exchange allocations were being channeled into big city industrialist and merchants at the expense of those in other regions.<sup>234</sup>

Thus the operations of the Incentive and Implementation Department were oriented towards supporting only a small fraction of business class. In fact, as some observers claimed, the Implementation Law did not serve the purpose of building a market economy, but supported the rent-seeking operations of certain investors who had close connections with the high echelons of the SPO. A former planning specialist who had worked in the Incentive and Implementation Department summarized the main lines of the incentive mechanism as follows:

The distribution of incentives to the private sector was totally unruly; it was executed without complying with a predetermined procedure. The private sector is always privileged in its investments competing with the public sector. The projects designed by the public sector are always discriminated against. The examples from the tire industry are illuminating in that respect. For the sake of the LASSA Project of the private sector, the PETLAS project of the public sector was delayed in order to ensure a timing advantage to the former. The export incentives were distributed without any inspection. In that respect the provision of due amounts of foreign currency was considered sufficient without checking whether this currency was genuinely earned through export profits. Therefore the export incentive system is used in money laundering.<sup>235</sup>

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<sup>232</sup> Nihat Mumcu, "Sınai Yatırımlar İçin Sağlanan Teşvik ve Kolaylıklar," *Ticaret ve Sanayi*, no.19 (February 1968).

<sup>233</sup> Ahmet Aker, *12 Mart Döneminde Dışa Bağımlı Tekelleşme* (İstanbul: Sander Yayınları, 1975), pp.18-19. Aker states that İstanbul alone benefited from 30% of the incentive measures.

<sup>234</sup> Cem, pp.116-117.

<sup>235</sup> In Sezen, p.80.

The words of Günal Kansu, who also worked in the SPO in late the 1960s, underline clearly the economic philosophy dominated in the organization in those years: “Turgut Özal was not pro-market economy but was pro-private sector. Those two were not the same. Turgut Bey sided with the realization of projects in his mind not by the State Economic Enterprises, but by private entrepreneurs, Koç, Sabancı, etc.... However, no anxiety existed in his mind so as to try to settle the market mechanism.”<sup>236</sup>

The “private sectorist” stance of Özal and his circle, and their “conservatism” in the sense of their desire to protect the discretionary power of the SPO over transferable public funds can also be seen in the controversy between the planning organization and the Ministry of Foreign Affairs on the issue of Turkey’s relations with the Common Market. Turkey had signed an Association Agreement with the European Economic Community (EEC) in 1963 which outlined a three-stage process by which Turkey would become a full member of the Community by the end of the century.

As a matter of fact, neither the First nor the Second Plan took into account the implications of Turkey’s attempt for accession to the Common Market. In other words, none of these two plans had foreseen the measures that should be taken for the new mode of integration with the world economy that this membership would entail.

However, at the end of 1960s, when the date came for the negotiations on the Additional Protocol, which specified the conditions that were to be applied during the second, so-called preparatory stage of the membership process, the problem

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<sup>236</sup> In Batur, p.215.

imposed itself into the agenda of politics. 1968 and 1969 witnessed intense struggles between the SPO and the Ministry of Foreign Affairs. In those years, Ziya Müezzinoğlu, who had been the third undersecretary of planning after Osman Nuri Torun, was on the head of the Turkish delegation in Brussels. His words portray the view of ministry of foreign affairs on the Additional Protocol as follows: “The Additional Protocol will gradually open the private sector to competition and will discipline the private sector activity. The planning will also accord itself with this model.”<sup>237</sup> From the economic point of view, the ministry of foreign affairs believed that the integration process with the EEC would bring about the desired “rationalization” of the Turkish economy. Ziya Müezzinoğlu and Tefik Saraçoğlu were the leading figures who had been trying to convince the business circles about the opportunities opening up with Turkey’s accession to the Additional Protocol. For this aim, an Economic Development Foundation was established in 1967. However, the business circles were, in general, indifferent to the process.<sup>238</sup> Even among those who supported the decision to join the EEC, there were plenty of critics of its detailed provisions, especially of those related to successive tariff reductions.

The SPO was strongly opposed to the Additional Protocol. According to Özal, Turkey’s accession to the second stage would be a plunge into uncharted waters. Although he was not opposed in principle to eventual membership of the

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<sup>237</sup> Mehmet Ali Birand, *Bir Pazar Hikayesi: Türkiye-AET İlişkileri* (İstanbul: Milliyet yayınları, 1978), p.229.

<sup>238</sup> Ertuğrul Soysal, “TBMM Plan Bütçe Komisyonu Üyelerinin İstanbul Sanayi Odası ile Temasları,” *İstanbul Sanayi Odası Dergisi*, no.53 (1 April 1969).

Community, he contended that the “Turkish style” of foreign exchange regime, taxation laws and other economic regulations were sufficient for the realization of Turkey’s own development targets.

In 1968, the SPO made several attempts to obstruct the progress envisaged in the agreements. For example, in March 1968, Özal prepared and imposed on the government a decree according to which the control of the Coordination Committee, which had been administering the foreign economic relations, was transferred to the SPO. The planning organization also showed passive resistance by not participating in the preparatory meetings and by not giving the necessary documents to the Turkish delegation in the negotiation process. Birand writes that, “the planners, with an oriental trickery, put forth impracticable suggestions in order to prevent any resolution. They perceived everything at the basis of projects; they confined themselves to citing the names of ten or fifteen such projects when praising the Turkish development... They are afraid of losing the privileges that they hold due to the law no. 933.”<sup>239</sup> These words, belonging to a high level diplomat, reveal the real reason for the tension between the State Planning Organization and the ministry of foreign affairs. The SPO did not want to lose its part in the allocation of resources which were attained by the Implementation Law. However, the SPO failed to hinder the process between Turkey and the EEC and the Additional Protocol was signed on 23 November 1970.

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<sup>239</sup> Birand, p.227.

The Implementation Law was met by strong opposition from both inside and outside the parliament. The opposition parties argued that the Implementation Law was against the Constitution at least for two reasons. First of all, the authorization of the government with extraordinary powers was claimed to be against the constitutional provision as the legislative power of the National Assembly could not be transferred to any other body. Second, as for Sadun Aren and the other representatives of the Turkish Labor Party (TLP), the law was against the principle of social justice in the Constitution.<sup>240</sup> It was also said that with the formation of the Investment and Export Promotion and Encouragement Bureau, the prime ministry would become a general ministry of economics, and thus would lose its constitutional status of being a coordination center and become a service department.<sup>241</sup>

Resistance to the law intensified further when the first results of the new measures became clear at the end of 1968. The export performance of the economy proved to be very weak and the realization of private fixed capital formation was the lowest since the beginning of the plan period. The opposition to the Implementation Law found support even among the representatives of the JP. In a speech in the Plan Budget Commission, a JP deputy stated that:

The current economic system facilitates enriching individuals through public means; the licenses are distributed in the black market like financial assets; the quotas, prohibitions, privileges and permits create entrepreneurs who are

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<sup>240</sup> *Cumhuriyet* 26 June 1967; Batur, p.201. See also Özhan Uluatam, "Özel Sektöre Yeni Destek," *Forum*, no.320 (1 August 1967), p.15.

<sup>241</sup> *Cumhuriyet* 28 August 1967.

monopolists. This is a weird system. It is a mistake to hope that the 1969 program will trigger important developments in our economic life.<sup>242</sup>

Consequently, the TLP applied to the Constitutional Court to nullify the Implementation Law. According to the Constitutional Court's decision, declared on 25 October 1969, the major articles of the law concerning the tax rebates, customs duties and encouragement funds were found to be contrary to the Constitution. However, the foundation of the Bureau was not found to be against the constitution because it was a governmental arrangement.<sup>243</sup>

The decision of the Constitutional Court created anxiety on the part of private business. The representatives of the private sector reacted immediately, by saying that the annulment of these articles would affect the private sector activity negatively, and jeopardize the realization of the investment projects. They also called on the government to take action for the preparation of a new encouragement law.<sup>244</sup>

The government and the SPO were quick to make statements to relieve the anxieties of the businessmen whose interests were hard hit by the Constitutional Court's decision. Yılmaz Ergenekon, the head of the Incentive Implementation Department, declared that the practice of tax rebate would continue since there was no reference to it in the Court's decision. The government also stated that incentive measures would continue as they had been, for it was determinant to make use of all the opportunities offered in other laws. Indeed, it can be observed that the

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<sup>242</sup> In Hıfzı Oğuz Bekata, *Türkiye'nin Bugünkü Görünüşü* (Ankara: Çığır Yayınları, 1969), p.77.

<sup>243</sup> *Cumhuriyet*, 26 October 1969.

<sup>244</sup> *Cumhuriyet*, 28 October 1969.



cancellation of the major articles of Law No. 933 by the Constitutional Court did not make much sense, given the shortsighted concern to transfer public sources for the emergence of a business class as a whole.

Either by making recourse to previous incentive and encouragement laws or by issuing new decrees, investment and export incentives were continued even more ambitiously after 1969. For instance, according to a new decree based on Law No. 474 issued by the Council of Ministers in the same year, customs duties were made zero for those items fitting the conditions specified in the decree. With this decree, new exemptions were also made for raw materials.<sup>245</sup>

According to a study conducted by the SPO, in the five-year period (1968-1972) 1,320 incentive certificates were given to firms with a total investment of 74 billion TL. No information was received from 150 of them and 202 of them were invalidated. For the rest of the projects, about 11 billion TL were granted as incentives.<sup>246</sup> In another study, it was calculated that as from 1973, the private sector would realize about 10 billion TL investment every year in manufacturing. About four billion TL of this investment would come from the own resources of the entrepreneurs. The share of foreign origin credits and long term development banks credits were predicted to be about two billion liras. The incentive measures, however, such as investment allowances, payments in installments of customs

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<sup>245</sup> Baran Tuncer, "The Regulatory Role of the Government in the Turkish Economy" in Mükerrerem Hiç (ed.) *Turkey's and Other Countries Experience with the Mixed Economy*, (Istanbul: İU Economics Faculty Publications, 1979) p. 673.

<sup>246</sup> Cihat İren, "The Growth of the Private Sector in Turkey", in Mükerrerem Hiç(ed), p. 395

duties and taxes, and charges related to them and the payment of taxes in installments would give a total source of 3 billion.<sup>247</sup>

The implications of incentive implementation for the planned development strategy of Turkey in the late 1960s and 1970s will be discussed further in the next chapter. Here, the foreign exchange crisis that the Turkish economy plunged into once again in the late 1960s and the response to that crisis will be discussed briefly in order to grasp the social determinants of the policy making process in Turkey in the late 1960s and 1970s.

### Crisis and Response

As Pamuk notes, the import requirements of a flourishing manufacturing sector constituted the main motive behind the support of the private business for ISI.<sup>248</sup> However, the contradictory nature of ISI lies in the fact that while it stems from a desire to reduce the dependence of the national economy on foreign resources, it is very likely that, the ISI could increase the foreign exchange dependency of the economy, if it failed to stimulate the industrialists to produce more technology-based goods and lead them to increase the export capacity of the economy through enhancing the external competitiveness of the selected strategic sectors.

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<sup>247</sup> Aker, p.19; see also Güngör Uras, *Medium Term Lending in Turkey* (Ankara: SPO Publications, 1971), p.6. Uras' research gives similar results.

<sup>248</sup> Şevket Pamuk, "İthal İkamesi, Döviz Darboğazları ve Türkiye: 1947-1979" in K. Boratav, Ç. Keyder, Ş. Pamuk (eds.), *Kriz, Gelir Dağılımı ve Türkiye'nin Alternatif Sorunu* (İstanbul: Kaynak Yayınları, 1987), p.45.

As discussed earlier in this study, the 1958 stabilization program was initiated after it was seen that the DP government had exhausted all means of maintaining the import requirements of the economy and under the threat of foreign creditors to withhold further credit unless a stabilization package was adopted. In line with the demands of the developing industrial bourgeoisie, the new import regime was formulated so as to put an end to the restrictive measures of the crisis years. Consequently, the first decade of planning in Turkey witnessed a considerable effort to maintain the import requirements of the industry which naturally led to the debt service problems.<sup>249</sup> Due to the difficulties in progressing towards the vertical integration of the economy, in other words extending the import substitution into the production of intermediate and investment goods, dependence of the domestic production on imports could not be reduced. On the contrary, it can be observed that the dependence of the manufacturing sector on imported intermediate and investment goods rose from 16.6% to 23.2%, and from 19% to 28.1%, respectively, in the 1968-1972 period. Although Turkey entered into multilateral debt relief negotiations and managed to reschedule considerable proportions of her external debt in 1965 and 1968, there had been little respite in those efforts to relieve the balance of payments difficulties as her debt burden more than doubled during the second half of the decade.<sup>250</sup>

By 1969, the economic situation of Turkey showed remarkable resemblance to that of the late 1950s. "The demand for external Bank Credit to finance government

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<sup>249</sup> Ibid., p.63.

<sup>250</sup> Ziya Öniş and James Riedel, *Economic Crisis and Long-Term Growth in Turkey* (Washington: World Bank, 1993), p.25.

deficits was growing, the currency had become overvalued and the servicing of external debt was becoming problematic...Furthermore the political antagonisms which surfaced after a half dozen years of planned development were clearly associated with the economic disparities which inevitably arise between competing economic interests under an import-substitution strategy – conflict between rural and urban sectors, industrial and commercial interests, public and private firm and workers and industrialists.”<sup>251</sup> Furthermore, as in the previous decade, there emerged a protracted struggle between the proponents and opponents of a stabilization program, which would be held responsible for the postponement of the devaluation until August 1970. Indeed even before 1969, recommendations for a structural adjustment program had been made by the IMF, the OECD and other agencies. According to Krueger, Demirel had been expected to make such an announcement immediately after the 1969 elections. However, he had been unable to make the move due to the strong opposition particularly from the industrialists.<sup>252</sup>

The 1970 devaluation showed its immediate effect on the economy by resolving the balance of payments crisis in the short-term. Export earnings rose rapidly, immigrant workers’ remittances increased even beyond the expectations and despite the extensive import liberalization foreign exchange reserves increased considerably. As a matter of fact, Turkey enjoyed a current account surplus for the first time since the end of the Second World War in the 1971-1974 period.<sup>253</sup>

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<sup>251</sup> Ibid, p.26.

<sup>252</sup> Anne O. Krueger, *Foreign Trade Regimes & Economic Development: Turkey* (New York: National Bureau of Economic Research, 1974), pp.311-312.

<sup>253</sup> Pamuk, “İthal İkamesi, Döviz Darboğazları ve Türkiye”, p.63.

However this optimistic climate turned out to be short-lived as Turkey plunged into a full-scale foreign exchange and debt crisis in the latter part of the 1970s, mainly because of the ambitious import program.

It is worth noting that the critical point with regards to the 1970 devaluation was that the devaluation was not accompanied by a structural adjustment program as it was in 1958. For example, the significance of monetary and fiscal policies was underestimated which brought about the deterioration of the macroeconomic stability. There emerged no serious attempt to remove the Central Bank out of the close control of the government. Maybe more importantly, it was not even discussed publicly to make use of the possibilities of a “balanced export promotion and import substitution” policy.<sup>254</sup>

However, it does not seem possible to put the blame for failure to adjust on the Turkish policy makers alone. That is to say, it is not easy to explain the rejection of making a shift in the industrialization strategy with the domination of a state tradition which favored political rationality over the economic rationality as some state-centred approaches tended to do, given the easy profits made available for private business through the economic rents generated in the production of consumer durables for the domestic market.<sup>255</sup> As some prominent businessmen stated even in the late 1970s, “exporting was a completely different type of activity” to them. In mid-1979 the representatives of the industrial capital warned the

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<sup>254</sup> The term belongs to Anne Krueger. See Krueger, p. 249.

<sup>255</sup> See for example Ziya Öniş, *State and Market* (İstanbul: Boğaziçi University Press, 1999), p.243. For a caricatured version of the state tradition thesis, see Hootan Shambayati, “The Rentier State, Interest Groups, and the Paradox of Autonomy: State and Business in Turkey and Iran” *Comparative Politics*, vol.26, no.3 (April 1994).

government that, “the economy should not under any circumstances be opened up to free competition without first achieving a desired level of strength.”<sup>256</sup>



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<sup>256</sup> In Henri J. Barkey, *The State and the Industrialization Crisis in Turkey* (Boulder: Westview Press, 1990), p.117.

## CHAPTER FIVE

### CONCLUSION: SOME OBSERVATIONS ON TURKISH PLANNING WITH REFERENCE TO THE EXAMPLE OF THE “DEVELOPMENTAL STATES”

The first decade of planning in Turkey, corresponding to the 1963-1973 period, witnessed a significant change in the trend in the GNP compared to the pre-planning period. While the target 7% growth rate per annum was reached, the share of investment in the GNP increased to 20-21% though it had been about 14-15% at the beginning of the decade. Furthermore, a relatively low rate of inflation accompanied the positive performance in the growth rate. However, any judgment about the performance under the planned period must be based on the extent to which the foundations for sustainable development in Turkey were laid. The present chapter takes up this point by looking at the weakness of planning strategy in Turkey with special reference to successful experiences of the developmental states of East Asia and France. It also provides a discussion of the discrepancy between the actual operation of planning in Turkey and the self-proclaimed targets of the planners. Such a discussion will provide insights into the social determinants of the economic strategy, which cannot be explained from a statist/new institutionalist perspective.

Below, three major problems that are generally associated with the type of planning practiced in Turkey will be discussed, namely allocational inefficiency (or the planners' sphere of control), export pessimism, and the neglect of macroeconomic stability.<sup>257</sup> It will be argued that the lack of leverage over the quantity of total credits and the price at which it is available to investors constituted the major obstacle to the allocational effectiveness of planning in Turkey. In the absence of selective control on the flow of funds to industry, the incentive allocation was directed towards the manufacturing sector as a whole, which was quite in line with the preferences of investors for production in the primary goods industries protected from both internal and international competition. With regards to export pessimism, it will be argued that the foreign trade regime constrained the ability of plans to focus on the relationship between policy objectives and the policy instruments available to achieve them. Lastly, the importance of macroeconomic stability and the factors that inhibited a successful macroeconomic management will be discussed. The utilization of the public sector in order to sustain profitability in the private industrial sector, the limited capacity of the state to appropriate a surplus from society in the form of taxes, and the inflationary bias of import substituting industrialization will be singled out as the major sources of macroeconomic instability.

### Allocational Inefficiency

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<sup>257</sup> See Öniş, *State and Market*, p.273-274. See also Atilla Sönmez, *Doğu Asya "Mucizesi" ve Bunalımı* (İstanbul: İstanbul Bilgi Üniversitesi Yayınları, 2001).



As was noted in the first chapter, a key success of developmental states stemmed from their exclusive control over the allocation of investable funds in the economy. For example, in Korea, the nationalization of banks in the 1960s enabled the state to direct the flow of funds to the industrial branches which were strategic for rapid economic development. The selective allocation of financial resources rewarded those firms willing to conform with the state policies while those which performed poorly in terms of operations management and production were penalized. Similarly, France witnessed two waves of nationalization of the financial sector: first, in the aftermath of World War II and second, in the 1980s following the electoral victory of the socialists.<sup>258</sup> Through these nationalizations the state sought to bring capital under its direct control to speed up economic modernization. Thus, the state obtained the capacity to extend medium-term loans to certain types of activity. Simultaneously, by putting quantitative restrictions on the overall growth of credit, the banks were prevented from making other types of loans. Those restrictions, which were called *encadrement du credit*, “supplied the state with a powerful financial tool of interventionism. In effect, the state merely had to exonerate a particular sector from encadrement to attract credit to it.”<sup>259</sup> Another example is Japan, which established various mechanisms to influence the decisions of private banks and other credit institutions on their allocation of credit between sectors. Here the aim was to achieve industrial reorganization, that is, the promotion

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<sup>258</sup> Michael Loriaux, “The French Developmental State as Myth and Moral Ambition,” in Woo-Cumings, p.243

<sup>259</sup> *Ibid.*, p.246.

of modernization and re-equipment of firms and the promotion of economies of scale for those firms which were too small to compete internationally.<sup>260</sup>

However, in the Turkish case, the planners lacked the capacity to make use of selective allocation of financial resources, although too much saliency was assigned to it, especially in the First Plan. As was noted in the previous chapter, the role of self-finance was as low as 30-35% in the Turkish private sector in the late 1960s. This meant that the private firms had to rely on outside resources to meet the major portion of their financial gap. Due to the underdeveloped structure of the stock markets, the development banks and commercial banks were crucial to meeting that need.

The Industrial Development Bank of Turkey (IDBT) and the Industrial Investment and Credit Bank (IICB) were two major development banks established to assist in the private sector by providing long and medium term financing through loans and equity participation. Nevertheless, the share of these banks in total credits supplied to the private sector remained too low in the 1960s and even declined in the 1970s. The proportion of the IDBT credits appeared to be only four percent in 1978.<sup>261</sup>

The commercial banks, on the other hand, which were mostly privately owned, preferred to channel their funds at large to domestic trade which involved agricultural activities and imports at the expense of risky new investments. The trade and import activities were generally financed by the short-term, usually three-

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<sup>260</sup> John Weiss, "Japan's Post-War Protection: Some Implications for Less Developed Countries," *The Journal of Development Studies* 22, no.2 (1986), pp. 397-398.

<sup>261</sup> Hale, p.155

month credits. Thus, banks were able to obtain much higher rates of return from money loaned to commercial groups. Throughout the 1960s and 1970s, the sectoral distribution of bank credits continued to be the main source of division between the industrialists and the commercial interests.<sup>262</sup>

However, the practice of incentive allocation, which was centralized within the SPO after 1967, compensated for the complaints of industrial capital. As was indicated in the previous chapter, a brief look at the distribution of incentives among the different sectors reveals that manufacturing was the major beneficiary of the incentive implementation. What is crucial from the point of view of developmental strategy, however, is that the incentive system provided protection for the manufacturing system *as a whole*. While the investments in the manufacturing sector benefited from nearly eighty percent of total incentives after 1968, there was no attempt to concentrate the incentive allocation on a highly select group of industries. On the contrary, in contrast to the original aim of the encouragement measures, which emphasized the need to extend the ISI into the “deepening phase,” some incentive measures were heavily directed to the light consumer goods sector at the expense of investment and capital goods industries.<sup>263</sup>

Needless to say, this practice deviated sharply from those of the developmental states mentioned above where such measures were utilized on a selective basis and

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<sup>262</sup> Güngör Uras, *Medium Term Landing in Turkey* (Ankara: SPO Publications, 1971), p.2; Barkey, p.123; See also Maxwell J. Fry, “Sectoral Investment and Credit Policies in Turkey,” *METU Studies in Development*, no.2 (1971), p.184.

<sup>263</sup> İren, p.396; Batur, p.240; See also DPT, *1971 ve 1978 Yılı Programları*, 2. Beş Yıl.

mostly for a comparatively short period, either for altering the sectoral composition of industry (industrial reorganization) or for achieving international competition.

### Export Pessimism

Unlike Turkey, the East Asian developmental economies experienced rapid growth that was predicated on a relatively outward-oriented development. During the 1950 and until the late 1960s, the import control system in Japan was a combination of quantitative restrictions, import tariffs and discriminatory purchasing in favor of domestic goods. However, the peculiar feature of this policy was a combined inward and outward looking perspective. Despite the existence of a protection system the importance of generating exports was emphasized from the early stage. The protection system was implemented by MITI and the control over the allocation of foreign exchange gave the MITI various opportunities to influence the pattern of industrial transformation. A second feature of the protection policy was that it was not seen as a permanent policy. Even at a relatively early stage, the MITI prepared studies on the effects of liberalization on different sectors. "In some areas a time table of liberalization measures was drawn up, and there seems to be agreement that awareness of the approach of liberalization acted as a major stimulant to Japanese firms to improve their efficiency so that they could match foreign competition."<sup>264</sup> Likewise, in both Taiwan and Korea, the import-substitution was selective and it was designed to sustain exports as the basis of

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<sup>264</sup> Weiss, p.390.

growth. This facilitated the push into a more diversified array of technology-intensive and high value-added exports in the 1980s.<sup>265</sup>

In the Turkish case, however, the export pessimism (or elasticity pessimism) is generally singled out by economists as the weakest link in the approach to planning undertaken by the SPO.<sup>266</sup> Öniş writes that, “the profound belief in the presence of low elasticities clearly influenced the direction of policy in terms of placing ceilings on key relative prices including the exchange rate. Looking back with hindsight to the experience of the 1960s and the 1970s, the assumption of low or zero elasticities, on implicit assumption in planning based on fixed coefficients, proved to be a costly error ... In the stylized model of the five year plans, exports were specified as an exogenous variable with the whole weight for achieving balance of payments equilibrium falling on import substitution and foreign capital inflows.”<sup>267</sup>

While there is a strong element of truth in the verdict that the idea of export pessimism and the consequent reliance on the import substitution in the Turkish planning were signs of the intellectual influence of structuralist developmental theory which became widespread in the developing countries during the 1950s and 1960s, it is generally glossed over the fact that, as Sönmez argued, the early planners were well aware of the limits and the costs of import substitution.<sup>268</sup> For this reason, they recommended that the protection should be accorded to *selected*

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<sup>265</sup> Gary Gereffi and Stephanie Fonda, “Regional Paths of Development,” *Annual Review of Sociology*, no.18 (1992).

<sup>266</sup> Krueger, p.130.

<sup>267</sup> Öniş, 1999, p.273.

<sup>268</sup> Sönmez, p.109. On the evolution of the idea of development planning, see Sukhamoy Chakravarty, “Development Planning: A Reappraisal,” *Cambridge Journal of Economics*, no. 15, (1991).

import substitution industries and that this protection should be of a *temporary* nature. The general principles of foreign trade policy was stated in the First Plan as follows:

A moderately high ad valorem general protection is necessary in order to overcome the disadvantage of being an underdeveloped country trading with advanced countries. This general protection should tend to decrease in time. In addition to this, selective measures are needed to protect and promote certain new industries. These protected industries, must be such as to further the attainment of the plan targets. On the other hand the technical and financial structure of these industries should hold out assurance of gradual reductions in production costs. The level of protection should be determined in a way which will stimulate the protected industries to reach competitive status and protection should be removed when it is attained.

Customs duties, quotas and other protective measures should be considered as separate and complementary instruments. In addition to a selective system of protection, a selective policy of tariff reductions may also have to be applied to curb rising trends in internal cost structures and shorten the setting-up period of newly created industries.<sup>269</sup>

Then, it would not be so accurate to explain the determination to sustain protectionism and ISI strategy throughout the 1960s and 1970s by putting the emphasis on the unwillingness of the state elites to discipline pervasive rent-seeking behavior since they enjoyed their arbitrary control over the economy. For, as Barkey notes, protectionism and import substitution were the only issues on which industrialists could agree as a whole.<sup>270</sup> Industrialists were very protective of ISI and did not show any concern for the dislocations created in the system as long as the foreign exchange reserves were sufficient.

Commercial groups, who were the major losers of the restrictive import provisions associated with import substitution, were also not very critical of import

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<sup>269</sup> SPO, *The First Five Year Development Plan*, pp.494-495.

<sup>270</sup> Barkey, p.113.

substitution. That is mainly because, as indicated above, the complaints of commercial interests were compensated by a generous allocation of funds from the banking sector towards domestic trade and imports. Moreover, a significant portion of importers, mostly located in big cities, managed to engage in the manufacturing of products that they previously had imported, and became importer-industrialists.

### Macroeconomic Instability

A third problem of Turkish planning was the macroeconomic instability which particularly gained importance in the 1970s. In the East Asian model, macroeconomic management in the form of conservative fiscal and monetary policies was regarded as a central component of a successful industrial strategy. Macroeconomic discipline and low inflation were seen as crucial particularly to reducing uncertainty for investors.<sup>271</sup> The French planning approach also stressed the need to control inflation in order to reduce uncertainties, thus providing a climate conducive to higher investment and more rapid expansion.<sup>272</sup>

In the Turkish case it is reasonable to see that macroeconomic discipline did not receive as much stress, due to the “dual objective” of planning. That is to say, the introduction of planning did not stem from a desire to realize the elusive objective of macroeconomic stability by itself. As was discussed in the third chapter, planning was also regarded as a means to improve the welfare of the working

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<sup>271</sup> See Johnson, *MITI and the Japanese Miracle*, Chapter 3; see also Öniş, *State and Market*, p.270.

<sup>272</sup> Cohen, p.9.

classes. Nevertheless it does not mean that the macroeconomic stability was sacrificed for the welfare functions of the planning. As will be recalled, an important feature of the 1958 stabilization program was ceilings on Central Bank credit and on government borrowing from the Central Bank. Consequently, Turkey was able to keep inflation at an average annual rate of five percent during the ten years after 1958.

The First Plan was well aware of the need for a systematic treatment of macroeconomic balances, fiscal and monetary policies in the design of annual programs. The tax and SEE reforms were initiated by the early planners with this in mind. In addition, an “inflationary gap” analysis was initiated in the First Plan period on the advice of Bent Hansen, which sought to determine the appropriate scope for fiscal policy in the annual programs.<sup>273</sup> Such an analysis would reveal the scope for monetary policy actions to complement the fiscal policy program that would ensure ex ante equilibrium forecasts for that year. Thus it was intended to enhance the annual programs’ ability to project the interrelated balances of the economy within which the government’s consolidated budget is prepared by the ministry of finance. However, as was discussed earlier in this thesis, the monitoring functions of the SPO in coordinating the short-term real and monetary developments were quite restricted from the beginning. In practice, especially from the late 1960s onwards, the initial and end year budget appropriations showed wide differences indicating a deterioration in the budgetary discipline.

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<sup>273</sup> Merih Celasun, “Real and Monetary Aspects in the Turkish Economic Planning,” *METU Studies in Development* 7, no. 1-2 (1980), pp.5-7.



Due to the inability to take concrete measures to raise public disposable income (through a tax reform or more efficient use of SEEs) and unwillingness to moderate the growth of public investments as in 1950s, the deficit in the public sector rose dramatically after the late 1960s. By the late 1970s the public sector deficit grew to around 17-19% of public expenditure while this proportion represented only 2% at the beginning of the planned period.<sup>274</sup> The difference between public expenditures and revenue was met either by recourse to short-term borrowing from the Central Bank or by recourse to external borrowing. The natural outcome of this process was, in the first form of finance, the creation of money in excess of growth rate (inflation), and in the second form, high foreign debts which led to severe problems later.

A related, but non-monetary, dimension of the inflationary process was associated with the structural imbalances generated by the ISI strategy. As Öniş notes, the import price increases, which were the natural result of increasing difficulties in extending import substitution into “complex phase,” contributed equally to the inflationary process with monetary growth.<sup>275</sup> For, the consequent foreign exchange constraint reduced significantly the rate of capacity utilization in the manufacturing sector and limited output expansion in the 1970s. Also, the protected manufacturing operating mainly in the internal market easily passed the input price increases to consumers through the practice of mark-up pricing.<sup>276</sup>

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<sup>274</sup> Hale, p.166.

<sup>275</sup> Öniş, *State and Market*, pp.31-34.

<sup>276</sup> Celasun, p.21.

In this context it can be argued that, had a progressive tax structure been realized, and the SEEs been operated efficiently and profitably, it would have been possible to deepen the industrial structure towards intermediate and investment goods sectors without making recourse to inflationary processes. This was the path followed by the successful examples of France and some East Asian developmental states in which deliberate efforts were made to inject capital to the publicly owned key heavy industrial sectors while an optimum and dynamic mix of exports and import substitutions were pursued for the manufacturing sector.

#### Concluding Remarks

In the context of the post-Second World War international geo-political and economic environment, Turkey attempted a new mode of articulation to the world economy given the possibilities made available through the extension of Marshall Aid to Turkey and the conception of comparative advantages which became dominant in the economic philosophy once again in the immediate aftermath of the war. In this new environment, Turkey managed to extend a significant effort for its industrial development through channeling a considerable portion of foreign aid for fairly diversified purposes, such as imports of industrial implements and raw materials, and the construction of infrastructural facilities. Moreover, the expansionist policies of the DP government made possible accelerated capital accumulation in private hands. Thus, it is argued in the second chapter that it should not be surprising to see that, contrary to the expectations of the advocates of statist

theories, the private sector had no intention of abandoning the etatist policies. However, the myopic expansionist policies of the DP proved to be unsustainable when the economy encountered growing inflation and balance of payments difficulties from the late 1950s onwards. Thus a common opposition to the DP emerged in the late 1950s which united the U.S. authorities and international agencies, industrial capital, and the urban salary-earning groups. The opposition urged the government to adopt a kind of economic planning which was designed to coordinate and rationalize public investments, assure the proper use of foreign aid, and control the macro balances of the economy. However, the institutionalization of planning cum import substitution strategy was only made possible after the coup d'etat of the young military officers in May 1960.

The foundation of the State Planning Organization represented an attempt for the first time in Turkish economic history to invest a state agency with exceptional authority to discipline not only public sector investments, but also private sector activities for long-term strategic economic change and industrial development. In the jargon of the recent developmental state theories, it can be argued that the SPO was intended to enjoy an “embedded autonomy,” in the sense that a distinctive mode of state-private business relationship was envisaged in the beginning in which economic projects are advanced by cooperation, in a manner that their adoption are monitored by an insulated group of bureaucrats in the planning agency. The internal structure of the organization, its personnel regime, and the established organs to link the agency to particular social groups were envisaged to meet the requirements

of achieving the establishment of a “developmental coalition,” which was the sine qua non of a long-term developmental strategy.

Having attained such a privileged position within the state apparatus, the reformist early planners believed that they were able to transform the Turkish economy into a rational capitalist economy via a set of structural reforms which would also be instrumental in the establishment of a new hegemonic strategy for gaining the consent of the popular classes in a democratic setting established by the 1961 Constitution. The deliberate emphasis of the early planners on social planning was discussed in the third chapter within this context. However, the limits of such an autonomous position imposed itself when the early planners were confronted with a wide range of social opposition after the transition to multi-party democracy. Having exhausted all means to realize the structural reforms that were seen necessary to attain the ambitious targets of the first plan, the early planners had not much choice but to resign at the end of 1962. Thus from the very beginning, the relationship between the SPO and private business proved to be shaped in favor of the short-term interests of industrial capital and not towards the long-term rationalization of capitalism that required the disciplining of the private capital by the state.

The JP's accession to power in 1965 opened up a new phase in the history of the SPO which resulted in the further degeneration of the organization by the end of 1960s. Although it had declared its disdain for any kind of planning before the elections, once in power, the JP chose to alter its attitude towards planning so as to manipulate it as a means to stimulate private capital accumulation through an

extending system of incentives. The formation of the Incentive and Implementation Department within the SPO in 1967 was perceived to be the institutional center of incentive implementation which enhanced the myopic rent-seeking orientation of private capital accumulation. Thus the industrial sector found the means of expanding horizontally in the manufacturing of consumer goods, rather than being disciplined towards vertical industrialization in the further stage of import substitution. The formation of the department also marks the further deterioration of the independent nature of the SPO by making it a part of the executive machine, thereby drawing the organization into the daily struggles of politics. Furthermore, with the mass recruitment of contract based staff made available by the Implementation Law, the SPO was rapidly politicized and its internal coherence was deteriorated.

The short history of the first decade of economic planning in Turkey proves that, from the view point of the discussions presented in the first chapter, the developmental state theories fail to come to terms with the Turkish experience since they put too much emphasis on state formation while neglecting the significance of social formation. This study aimed to examine the gradual deterioration of the state capacity to achieve long-term economic change and industrial policy in the wider context of the set of social relations that extended beyond the state apparatus.

## APPENDIX A

### ORIGINAL TEXTS OF PASSAGES THAT APPEAR IN THE TEXT

Page	Note
69	153 Tarım için bu vergi kanununu çıkarırsak, ihtilalleri daha nice daniskası çıkar.
69	154 Bana kalırsa bu vergi kanununu uygulamak için her eve bir jandarma dikmek gerekir. Geçmişte varlık vergisi gibi tecrübelerin vatandaşlarda uyandırdığı olumsuz tepkilerden ve itirazlardan ders almış olarak hareket etmek zorundayız.
70	155 Gelir dağılımı bölümünün çıkartılması kararını verdiler. Vergilerle ilgili tekliflerimiz kabul edilmedi, toprak reformuyla ilgili tekliflerimiz kabul edilmedi, iktisadi devlet teşekkülleriyle ilgili tekliflerimiz kabul edilmedi. Her kabul edilmeyen şey bize çok yoğun bir şekilde çalışarak, iki yılda büyük gayretlerle ve dikkatle düşünerek sistematik olarak birbirleriyle bağlantıları iyi bir şekilde düşünülmüş bir yapının parçalarının teker teker yıkılması şeklinde görünüyordu. Hepimiz gelecek için büyük bir karamsarlık duymaya başladık.
71	158 Planda sık sık bahsi geçen ve her türlü tefsire müsaüt olan “Sosyal Adalet” sözüne de sınır çizmek ve vuzuh vermek zorundayız. Bu söz umumiyetle sosyalist ve Welfare-state taraftarlarınca servetin yeniden dağılması, müteşebbislerin kazançlarının önlenmesi, gelirlerinin tamamının veya büyük bir kısmının ellerinden alınması, elde mevcut kaynakların, ne iktisadi ne de ahlaki olmayan bir kıstasla müsavat üzerine fertler arasında dağıtılması şeklinde tefsir edilmektedir. Bizim bu tarz bir sosyal adalet anlayışına karşı olduğumuz planda açıkça ifade edilmelidir.
94	215 1963 Yılı Programı 54 tedbir öngörmekteydi. Bunlar arasından sadece 11 tanesi meclisten geçmiştir. 1964, 65, 66, 67 yılının rakamlarını söylemiyim... Bu rakamlar acı bir gerçeği gösteriyor. Anayasamız planla hızlı kalkınmayı, süratli gelişmeyi öngörmekte ve bazı tedbirlerin Meclisler tarafından alınmasını, bazı tasarıların, tekliflerin kanunlaşmasını öngörmektedir. Buna mukabil, maalesef meclislere sevk edilen tasarılar

kanunlaşmamakta, ya komisyonlarda uymakta veyahut gelip gündemde günlerce sıra beklemektedir. Bu parlamentonon üzerinde ısrarla duracağı bir husus olmaktadır.

Gerek merkezi idarede ve gerekse taşra teşkilatında, idarede bir ürkeklik, bürokrasi hastalığı mevcuttur. Bu bürokratik zihniyetle anayasanın ve İBYKP'nın öngördüğü tedbirleri tahakkuk ettirmek biraz zordur. Bu itibarla İBYKP döneminde gerek teşrii organın, gerek idari mekanizmanın yeni bir anlayış içerisine girmesi şarttır.

- 102 235 Teşvik uygulamaları kuralıydı, el yordamıyla yapıyordu. Kamu sektörü ile özel sektörün aynı alanda yapacağı yatırımlarda özel sektör yatırımları kollanmıştır. Kamu projeleri bekletilerek özel sektör projelerine öncelik verilmiştir. Bunun en açık örneği lastik sanayiindedir. Kamunun PETLAS projesi tutularak, özel sektörün LASSA projesi öncelik almış piyasaya PETLAS'tan önce girmiştir. İhracat teşviklerinde ise denetim yapılmamıştır. İhracatçıların taahhüt ettikleri ihracat tutarını Türkiye'ye aktarmaları yeterli görülmüş, bu kaynağın gerçekten ihracattan sağlanıp sağlanmadığına bakılmamıştır. Dolayısıyla ihracat teşvik sistemi kara paranın aklanmasında bile kullanılabilir hale gelmiştir.
- 104 237 Özel sektör rekabete yavaş yavaş açılacak ve disipline girecek. Planlama da bu modele göre yeni bir uygulamaya kaymak zorunda kalacak.
- 105 239 Plancılar tam bir doğulu kurnazlığı içinde, olmadık önerilerle gelerek işi yokuşa sürmeye çalıştılar. Herşeyi proje bazında görürler, Türkiye'nin kalkınmasını överken 10-15 projenin adını saymakla yetinirlerdi. Ellerindeki 933 sayılı kanunla tuttıkları yetkilerin kaybolmasından korkuyorlardı.
- 106 242 Bugünkü iktisadi rejim devlet eliyle fert zengin etmeyi kolaylaştıran, lisansların adeta bir servet gibi tedavül ettiği, kotalar, yasaklar, imtiyaz ve müsaadelerle monopolcü ve inhisarcı duruma getirilen müteşebbisin at oynattığı anormal bir iktisadi rejimdir. 1969 programının iktisadi bünyemizde önemli olaylara yol açmasını beklemek hata olacaktır.

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