

## A NEW DIMENSION IN FOREIGN ASSISTANCE

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A number of changes have occurred over the past few years in the way the American people look at their foreign assistance programs. The Marshall plan was greeted with great skepticism when it was first introduced fifteen years ago. Its results, however, exceeded the expectations of its most enthusiastic supporters.

When the focus of the foreign aid program shifted from the warshattered economies of Western Europe to the developing countries of the rest of the world, many enthusiasts expected the same dramatic progress. This has not, however, proved to be the case. In Western Europe, the basic social services already existed, literacy was high, and skilled management was ready to move forward if capital was provided.

In many of the developing countries, however, these basic factors are totally or partially absent, and the job of creating them takes more than the injection of capital or the expression of good intentions. It requires long and careful planning, hard work, and a strong sense of purpose. These qualities cannot be imported. Foreign assistance can supplement and stimulate but it cannot replace, it cannot substitute for the will of a people to improve itself.

Therefore, a new dimension has been added recently to the thinking of those who are directing the American assistance programs. We have in English a proverb which says, «The Lord helps those who help themselves.» Although a parallel is not intended, this proverb helps to convey the meaning of this new dimension in foreign assistance. Unless the recipient of the outside assistance is prepared to organize internally to effectively utilize the assistance and is prepared to think through its most urgent problems and decide what priorities are to be placed on all its many needs, the assistance will not be fully effective.

This means not only that the spending of the outside assistance must be carefully planned and carefully implemented. *Total* resources must be carefully planned and carefully utilized. If this is done, the aid - giving countries will find it much easier to justify to their taxpayers the programs of aid - - and the aid - receiving countries will find their benefits increased proportionately.

This idea was succinctly expressed by President Kennedy in a recent message to the American Congress. He said, «Wherever nations are willing to help themselves, we stand ready to help them build new bulwarks of freedom.»

The new Administrator of the Agency for International Development, David Bell, has strongly endorsed this idea. Recently he said, «The principal effort to develop a country's economic, political, and military strength must be made by the people of that country themselves. Only when there is local leadership and a program of action for bringing about changes, can outside aid be effective. We can only help those who want to help themselves.»

This point may seem perfectly obvious to all of us here but, at the same time, we will recognize from our own experience the fact that some individuals, some institutions, even some business concerns and some nations behave carelessly and indifferently, apparently in some blind faith that they will be saved from their own folly by others.

Any student of human nature will recognize this as completely untenable. The strength to improve must come from within. Fancy clothing will not develop character in a man who lacks it; new buildings or equipment or machinery or capital will not make a business profitable unless the buildings and the machinery and the capital can be rationalized and put to work.

There is another major reason why the aid - giving countries have begun to re - examine their aid programs. In making aid available, our one objective is to develop independent, self-supporting countries strong enough to help serve the cause of freedom. We want to discontinue our aid programs at the earliest possible time, but we want to be sure that in the interim our friends and allies have in fact achieved the goal of self - sustaining growth at a high level of activity. The aid - giving countries want to concentrate their resources where there is reasonable prospect of achieving this

goal, instead of scattering them without regard to how they could have been better utilized elsewhere.

Since this new emphasis has begun to appear in public statements about the American aid program, I have been asked many times as to where Turkey would stand on the self - help score sheet. This is not an easy question to answer. In the first place I am not at all sure that anyone could give a precise prescription as to what should be done in the economic area at any given time for self improvement. There are many factors which affect the situation. I would expect that the general answer to this question would be that Turkey's score been good - but not perfect. I expect that each of you would have in mind certain things which the Government or the people of the country ought to have done but did not do, and I would expect that you might feel very strongly about some of these things.

I would expect that there might be strong disagreements among you as to which steps were urgent, and which could be temporarily postponed. There would, however, be general agreement that many of the steps taken in the recent past have been major advances and have Turkey a strong contender for special commendation in the matter of self - help.

Two major achievements could be singled out for special mention: First is the attainment of monetary and fiscal stability. Despite the fact that some individuals are lucky and profit greatly during periods of rapid price fluctuations and unstable market conditions, I expect that the lessons of history would indicate that sound growth is far more apt to occur under conditions of a sound currency, stable prices, and orderly markets.

The second major step forward has been the preparation of the Five-Years Plan. This represents an attempt to define from the standpoint of public policy just what the priority needs of the nation are, and what steps the Government should take toward facing those needs. The Government, guided by the plan, can then adjust the ground rules so that the private sector will also be in a position to contribute affectively toward those goals. This is not an easy task and the fact that it has been done and accepted almost unanimously is a major step forward.

If time permitted, I could mention many other programs undertaken by the Turkish Government which demonstrate its interest in using its resources to improve standards of living for all the people.

For example, major progress has been made in the field of public education although much remains to be done in the area.

A vast program for the improvement of land and water use is now underway and promises to increase the availability of food and power for the rapidly increasing population.

The legislation which was passed several years ago and which prompted foreign oil companies to spend over \$ 100 million in exploring for oil in Turkey is a model of the kind of effort needed to put natural resources to work for the country.

On a more limited level, I might mention the efforts to ease customs formalities for foreign tourists entering the country and thus potentially opening up new areas for foreign exchange earnings. By no means the least of the self - help efforts made by the Turkish Government are the recent tax changes which are designed to help pay for the increased investments required under the Five-Year Plan. Since this month is also the tax - paying month for Americans, we are not unaware of the sacrifices which the new tax requirements entail.

I do not think there is anyone wise enough to issue an economic prescription which will insure development. Economists differ among themselves as to how growth can be stimulated and the political scientists and the sociologists also have some very definite views on this question. George Bernard Shaw once said that if you laid all the economists in the world end - to - end, they would fail to reach a conclusion. I am therefore hesitant to prescribe any further steps which Turkey should take to stimulate its economy.

Despite all the dangers and pitfalls, and conscious of the fact that these questions are not subject to black and white answers, I would nevertheless like to suggest three areas, each with several steps, in which further action appears to be required if Turkey is to meet its expectations for a better life for all its people five or ten or twenty - five years from now.

*The first area which I would like to suggest for further attention is the area of capital formation.*

Consumption can be increased only if there is more production - production depends upon more investment - and investment depends upon savings. Primitive societies save very little and need very little, but as the economic system becomes more complex capital becomes more and more the bottleneck to economic development. In the years ahead, Turkey will need more and more capital and this requires more and more savings.

Savings are basically of two kinds - either forced savings which are achieved through taxes or through the prices charged by state enterprises on monopolies; and voluntary savings, that is, that proportion of his income which each individual sets aside for the future. Even in a stagnant society, about 7 or 8 percent of gross national product must be saved, simply in order to replace the capital investment which is continually wearing out. In a developing society where new investment is required in addition to replacement investment, this rate must be much higher. In communist countries, the rate of forced savings is sometimes as high as 30 or 40 percent of gross national product. Such a high rate is impossible in a democratic society.

The Five - Year Plan suggests a rate of 14 percent for Turkey. This is a reasonable target, but it will not be easy to achieve. During the past several years, the rate has been perhaps 11 or 12 percent.

To achieve the increase to 14 percent, a number of steps could be taken, but I will suggest three which seem to be of particular importance:

First, reform of the state enterprises to make them net contributors to capital formation rather than net users of capital. This means that they should be treated as business institutions rather than as agencies for social welfare. They should become cost conscious and their managements should be given the authority to act decisively and quickly. Only in this way can they utilize their facilities to make a full contribution to the development of the country.

This subject has been exhaustively studied by a joint team of Turkish, American, and European experts and recommendations along this line were made to the Turkish Government. It is hoped that they will be successfully enacted into law.

Second, every taxpayer must understand his obligation to bear his fair share of the tax load. No one likes to pay taxes, but those who have to pay an extra share of their incomes in taxes as a result of the failure of some other taxpayers to meet their obligations have a special reason to complain. The Turkish income tax law has been the subject of favorable comment by many outside observers. However, no matter how perfect the law, if the citizen does not feel an obligation to comply with it and if the Government does not take vigorous steps to implement it, the burden of taxation will fall on those who are least able to pay or the capital needed simply will not be accumulated.

Third is private capital market itself. Turkey is a low - income country but, nevertheless, one sees evidence of capital available for productive investment, if it is properly channeled. Much of this money is now going into housing which meets the needs of only a very small fraction of the Turkish population. Other funds go into commercial banks which are not equipped to meet the investment needs of the business community.

There is at present almost no method by which a potential entrepreneur can tap the private capital market for his financial needs. As new industries develop these needs will increase and a means should be found for managers and entrepreneurs to sell bonds, preferred shares, and eventually common shares on the general market. As business becomes more complex, it is no longer possible to depend upon friends and relatives for financing. More systematic methods are needed.

Caution is also needed to insure that entrepreneurs do not take advantage of a gullible public to unload stocks of doubtful value. We have had plenty of experience with this in the United States and would hope that when the private capital market begins in Turkey it will be started under proper safeguards to insure the welfare of the individual investor.

*In making a prescription for the economic future of Turkey, I should like to suggest that the problem of exports also needs urgent attention.*

For many years, Turkey has been living beyond its income, that is, it has been importing far more from abroad than it has been

able to pay for with its own exports. The difference has been made up by foreign assistance, loans, and the spending of Turkey's reserves. This cannot, of course, continue indefinitely. At one point, either the imports have to be reduced or the exports increased. In a developing country, it is unlikely that the level of imports can be sharply reduced, although their composition will change as new production comes on the internal market. The only real solution to this problem is a major increase in export earnings.

Unfortunately, Turkey's exports have been stagnant for many years. Exports in 1962 were only five percent above 1952 and the highest export earnings of any year in Turkey's history were in 1953. This is indeed a disappointing performance. The availability of foreign exchange in the future can certainly be considered as one of the major bottlenecks to rapid development.

There is no magic formula which will bring about a rapid change in the export picture. The Planning Office estimates that exports will increase at the rate of about six percent per year over the next five years. This, however, can by no means be taken for granted and active steps must be taken before it will come about. The Government can make a major contribution to this effort by removing all red tape connected with exports and making it easy rather than awkward for the Turkish producer to find markets abroad.

To make foreign marketing attractive, the Government might wish to make special tax rebates for production for export; it might wish to allow imports to come in under bond which are in turn fabricated for export. It might wish to provide special credit facilities for the production of selected export goods.

In certain cases, it might even wish to put specific restrictions on the internal consumption of luxury goods which are in demand abroad. This could be done with olive oil, where a cheap substitute is available. England, for example, limited very sharply the consumption of Scotch whisky in order to make more available for export. Denmark did the same thing with its butter, and Germany with its optical goods.

While moving to step up the export the traditional Turkish products, the export of new products must also be encouraged. Turkish fresh fruits and vegetables are of excellent quality, but

the export market for these has barely been touched. It is believed that exports of minerals can also be substantially increased above the targets fixed in the Five - Year Plan. Likewise, the consumption of meat is increasing in Western Europe and Turkey would be a natural source meet this demand.

A whole range of new industrial products also suggest themselves. Markets will depend, of course, upon prices and quality. Above all else, an export consciousness must be created. Unfortunately, neither Turkish businessmen nor the Turkish Government has shown any particular interest in foreign markets. I believe that neither group has yet realized the full impact of this fact -- the availability of foreign exchange is going to put very definite limits on the rate of internal development.

Perhaps American has been in part responsible for this lack of interest. By providing Turkey with substantial amounts of foreign exchange or foreign - produced commodities without requiring the payment of foreign exchange, we have in effect made it possible for Turkey to step up its rate of development while avoiding the hard discipline which comes from struggling for sales in the competitive world market.

In this connection, Japan provides an illustration of the discipline which comes to an industrial complex which is forced to export in order to live. Japan has fought its way into world markets on the basis of price and quality and, as a result, has developed a highly efficient industrial complex. If Turkey is to expand its imports in order to meet the needs of its growing industrial machine, it must prepare to engage in the same struggle for foreign exchange.

*A third area comes to mind which requires urgent attention and which so far has defied solution - the area of housing.*

Around Turkey's major cities, there are now growing up communities of squatters who build their houses without regard to any plan and without regard to the availability of services such as water, sewage, or electricity. These squatter settlements will eventually choke the cities and, in the meantime, are producing major sanitary, educational, and transportation problems. A solution to this problem is urgent, but it is as yet not in sight.



This has happened at a time when substantial amounts of both public and private money have been going into housing. About 50 percent of Turkey's current investment is in the housing field and the rate of capital formation for housing in Turkey compares favorably with that of other countries at the same stage of development. Unfortunately, however, this money has been going into the type of housing which does not meet the needs of the low-income worker. Therefore, he has been forced to find the best substitute he could - often the «squatter» settlement.

On the private side, considerable capital is going into relatively luxurious apartment houses. These apartment houses in many cases are very costly in terms of the living space they provide. On the public side, the so-called social housing appears to have been designed above the standard which wage earners could pay. Accordingly, it has been utilized primarily by the middle income groups. There still remains the problem of where the wage earner is to live.

Recently a United Nations expert has made what I consider to be an imaginative proposal to meet this problem. He suggests that rather than try to stop the self-help housing activities of the low-income squatters, these activities be channeled into legalized housing developments. Under his scheme, the municipality would set aside a specific area of land for self-help housing. This area would be divided into building lots available at a small rental figure with streets and water facilities built by the municipality. The wage earner would then be invited to rent a lot and build his own house in accordance with certain minimum restrictions.

What is happening in Turkey, says this U. N. expert, is the development of a whole new housing industry keyed to the needs of the lower income groups. The houses produced are not ideal, but they are far better than village houses and also, in many cases, better than facilities available in the central parts of the major cities.

This seems to me to be worthy of a try. Certainly if the present situation continues, the squatter settlements will become not only a health, education, and transportation problem, but may grow into a political problem as well. They could become the focus for social unrest and political movements which would jeopardize the very

stability of the society. Again, although there is no magic formula to solve this problem, it needs the careful attention of Turkey's private and official leaders.

I put these ideas forward not with any implication that they will determine the future of the U. S. economic assistance program, but simply as suggestions where further work to be done. The more that is done to tackle these difficult problems and bring them under control, the easier it will be for Turkey's friends abroad to continue their support.

America values its close ties and its and its friendship with Turkey. We want to make those ties even stronger and more mutually beneficial. We know that the problems of development are not easy.

A great man of wisdom once said this:

«Today, all the nations of the world are in a way relations and are occupied in being so. In this way, as a man considers the prosperity and happiness of the nation to which he belongs, so must he consider the peace and well-being of all the nations of the world. As he values the prosperity of his own nation, so must he try to do all he can to serve the happiness of the nations of the world.»

No better way could be found than these words of Kemal Atatürk to describe the interest, the responsibility, indeed the moral demand which motivates the American foreign assistance program. I leave you with those thoughts.

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