

U.S. AID AND TURKISH MACROECONOMIC POLICY: A NARRATION OF THE AID BARGAIN PROCESS IN THE 1946 - 1958 PERIOD*

FERİDUN CEMİL ÖZCAN¹

ABSTRACT

The purpose of this paper is to narrate the aid bargaining process between the United States and Turkey during the 1946-1958 period. In this period Turkey received a substantial economic assistance from the United States. However, the U.S. aid did not come without strings. The U.S. as a donor country played a significant role in the shaping of Turkish economic strategy and policies. During the second half of 1940s and the early 1950s, development strategy and policy issues had stood in the centre of the aid bargaining between the United States and Turkey and the Turkish government had no trouble accepting the conditions of the aid program. During the second half of the 1950s, discussions between the U.S. and Turkey moved essentially to macroeconomic policy issues. American authorities refused the program loan requests of the Menderes government and requested a reform in Turkish macroeconomic policies. This caused friction and tension in the diplomacy of aid process.

KEYWORDS

U.S. Aid to Turkey; Foreign Aid; Aid Diplomacy; Turkish-American Relations; Turkish Macroeconomic Policy.

*This paper is based on chapter 5 of the author's Ph.D. dissertation (Ankara University, 2002). A shorter version of the paper was presented at the symposium on "200 Years of Turkish-American Relations," (Ankara, November, 2000).

¹Research Assistant, Department of Economics, Faculty of Political Science, Ankara University, Ankara, Turkey.

Introduction

Turkish economic strategies and policies were shaped by a combination of internal and external pressures and influences in the post Second World War years. Introduction of parliamentary democracy in 1946 and U.S. economic assistance and political influence had played an important role in the Turkish economic decision-making process during the post-War years. Popular demands related to economic policies became an influential factor in the new competitive political system. Severe criticism of the etatist policies of the Republican People's party governments had been voiced by the political opposition, which was mainly organized in the new Democrat party. American economic advisors also emphasized the need for a more liberal economic regime. Agricultural sector became a focus of attention due mainly to its electoral importance for the competing political parties. A strategy emphasizing agricultural development was also strongly encouraged by the United States.

The Republicans tended to adopt market-oriented policies due to the internal and external pressures. They maintained a conservative approach in macroeconomic management. When the Democratic Party came to power in 1950, the era of conservatism in macroeconomic policy came to an end. The quest for rapid economic development was the greatest political aspiration of the Democrat party. The Democrats engaged in expansionist economic policies with some initial impressive economic success. A boom in agricultural production caused by the increase in crop area, the mechanization of agriculture, favorable world prices for agricultural exports, good weather conditions and foreign aid contributed the unprecedented high economic growth in the early years of 1950s.

The later part of the 1950s came with some negative shocks, such as worsening terms of trade and unfavorable weather conditions. The Democrats responded to these shocks by foreign borrowing and deficit financing rather than adjustment. They refused to accept the suggestions of taking the necessary measures to stabilize the Turkish economy. They appeared to be confident that they had the right economic strategy and policies that could produce a dramatic success story.

Turkey was faced with a full-blown macroeconomic crisis resulting from populist economic policies which lead to high inflation, balance of payments crisis and decline in output growth in the 1954-1958 period. However, the Democrats conceived these problems of the Turkish economy not as the outcomes of their economic policies but as the structural problems of any developing economy. These difficulties were the necessary costs to be paid in the course of rapid economic development. The Democrats directed their efforts to obtain additional U.S. economic aid to continue to pursue their populist economic policies, rather than stabilizing the Turkish economy. However, contrary to their expectations American authorities refused to support their economic policies.

The process and consequences of the aid bargaining between the U.S. and Turkey in the 1946-1958 period will be narrated below.

Quest for External Finance in the Post-War Period

Relying on external resources, in the form of credits, grants and foreign direct investments, to promote economic development was one of the most crucial economic policy shifts in the post-War Turkey. That shift played also an important role in shaping other economic strategies and policies of the period, as will be discussed below. The main motive for the quest for external finance of the Turkish government in the post War period was to accelerate industrialization. This had been interrupted during the World War II by the substantial reduction in the volume of imports of capital and intermediate goods due to the wartime conditions in the international markets. However, the problem was that the government had to generate the required savings and obtain foreign exchange for financing import requirements of the planned investments.

The option of increasing domestic savings through taxation was not considered politically appealing. Due to the tension between Turkey and the Soviet Union, it was practically impossible to generate budgetary savings by means of curtailing the defense budget. For economies, such as the Turkish economy during that period, in which the foreign exchange gap constrained economic development, the problem was not only to increase domestic savings but also to obtain foreign exchange for investment purposes. Therefore the need

to import investment goods was another factor that made external financing attractive to the Turkish government. Under those circumstances, supplementing low domestic savings with external savings was economically and politically the best policy alternative to increase the total savings. Thus the Turkish government expected to obtain support for that policy from the United States. However, during the early post-War years, the U.S. seemed hesitant to provide economic aid to Turkey.

In October 1945, the Turkish government asked for a \$500 million program loan from American Export-Import Bank, to finance import requirements of the development programs² prepared during the final years of the War. The Bank refused that request by stating that the figure was beyond its limits and accepted to extend \$25 million for 1946-1947. Turkish government continued to push for additional Eximbank credit. The U.S. directed Turkey to IBRD (International Bank of Reconstruction and Development) to finance developmental projects.³

After this initial disappointment, the Truman doctrine of 1947 and the Marshall Plan (European Recovery Program, ERP) launched the following year raised once again the Turkish expectations of obtaining substantial economic assistance from the United States. The Turkish government submitted an economic development plan to the Committee for European Economic Co-operation (CEEC) and requested a \$615 million aid for the external financing requirements of the plan. In January 1948, the U.S. government rejected the Turkish plan.

The Turkish government realized that the U.S. had no intention to support an etatist development strategy. The evaluations and criticisms of a private group of American experts led by Max W. Thornburg on the Turkish economic conditions and policies were clear messages to the Turkish government about the preconditions of

²For the industrialization programs, see Yahya S. Tezel, *Cumhuriyet Döneminin İktisadi Tarihi*, 2nd ed., İstanbul, Tarih Vakfı Yurt Yayınları, pp. 313-322.

³*Foreign Relations of the United States* (hereafter *FRUS*) [1971], 1947, vol. V, p. 3, "From the Secretary of State to the Embassy in Turkey," United States Government Printing Office, Washington.

the U.S. aid program to Turkey. Thornburg severely criticized the strong statist character of the development plan being prepared by the Turkish government. He proposed a development strategy emphasized private enterprise, agricultural development, infrastructure investments and foreign capital.⁴

In April 1948, Turkey participated in ERP with a modest development plan, which favored the investment projects in agriculture, mining and infrastructure and became a member of Organization for European Economic Co-operation (OEEC). However, no credit was appropriated to Turkey for the first fifteen months of ERP because of Turkey's favorable gold and dollar reserve position at that time.

Attempts of the Turkish government to obtain aid produced only a \$10 million provisional appropriation from ERP in the first year. Upon this development the U.S. embassy in Ankara reported to Washington that, "it is entirely possible the Turkish Government will consider its position stronger domestically if it declines Recovery Program credits than it accepts an amount judged unsatisfactory in the light of Turkey's international position and needs."⁵ Turkish Foreign Minister N. Sadak informed U.S. Ambassador Edwin C. Wilson that his government's decision was to decline the \$10 million credit and instruct the Turkish Ambassador to the U.S. not to sign letter of intent and negotiate bilateral agreement under ERP.⁶ Ambassador Wilson advised Foreign Minister Sadak upon his request not to, "declare publicly the Government's intent to refuse the credit and to strive above all to keep door open for further discussions in Washington proceedings with letter of intent and negotiations for bilateral agreement." The Turkish government accepted the suggestion with the hope of a possible aid increase in the future and signed the Economic Co-operation Agreement with the U.S. in June 1948.

⁴Max W. Thornburg, Graham Spry and George Soule, *Turkey: An Economic Appraisal*, New York, Twentieth Century Fund, 1949.

⁵*FRUS* [1974], 1948, vol. III, p. 434, "Current Economic Developments," [Washington, May 3, 1948].

⁶*Ibid.*, p. 436, "The Ambassador in Turkey (Wilson) to the Secretary of State," [Ankara, May, 5, 1948].

The Early Signs of Trouble in the Implementation of the U.S. Aid Program

As early as 1950, ECA Mission in Turkey had begun to realize the problems in the implementation of the aid program. Russell Dorr, ECA Mission Chief in Turkey, had complained about the ambitious character of the Turkish development program as a source of threat to the financial stability of Turkey. He sought the support of the State Department in ECA's efforts to induce the Turkish government to undertake a development program within its financial capabilities.⁷

The ECA Mission in Turkey, with the support of the State Department, seemed to use the counterpart funds as an instrument to influence macroeconomic policies of the Turkish government. When the Menderes government came into office in May 1950, this policy created tension in ECA-Turkish Government relations. The Menderes government did not welcome the suggestions being made by ECA officials in Ankara, such as imposing tax on agricultural incomes and objecting to lowering the interest rates on the credits extended by the Turkish banks. Ambassador Feridun C. Erkin expressed the Turkish government's concern over, "the control which relatively minor ECA officials appeared to have over the economic life of Turkey."⁸ The Turkish government also reacted violently to a report⁹, which

⁷FRUS [1978], 1950, vol. V, p. 1229-31, "Memorandum of a Conversation, by the Officer in Charge of Turkish Affairs (Moore)," [Washington, February 14, 1950].

⁸FRUS [1982], 1951, vol. V, p. 1171, "Memorandum of a Conversation, by the Officer in Charge of Turkish Affairs (Moore)," [Washington, June 4, 1951].

⁹Hollis B. Chenery, George E. Brandow and Edwin J. Cow, *Turkish Investment and Economic Development*, Foreign Operations Administration Special Mission to Turkey (Ankara), December 1953. The Turkish government refused permission for the authors to enter the country. A. O. Krueger and Vernon W. Ruttan, "Assistance to Turkey," in A. O. Krueger *et al*, *Aid and Development*, The John Hopkins University Press, 1989, p. 254; "All Turks who had any way helped in the preparation report were frowned upon and the few copies which had been circulated were confiscated by the government." *Public International Development Financing Research Project of the Columbia School of Law. Report No. 3*, New York, 1962, p. 18.

assessed critically the Turkish macroeconomic policies, was prepared under American auspices.

Program Loan Request of the Turkish Government

In his visit to the United States in early June 1954, Prime Minister Adnan Menderes asked the U.S. government for a \$300 million program loan to provide financing for imports. The U.S. government's reply to this request was to suggest "a full, frank discussion of Turkey's economic problems, including the exchange rate of the Lira" as a precondition to consider any possibility of such a special accommodation. In response to this suggestion Menderes, "in an angry tone" said, "Under no circumstances he would discuss the exchange rate."¹⁰ In this meeting an agreement was reached on the need of undertaking a stabilization program and to ensure further discussions on the matter of economic aid with the American Embassy in Ankara.¹¹

Due to the massive crop failure of 1954 and the growing shortage in foreign exchange, the Turkish government reopened the matter of the loan request in 1955. The U.S position on that request was to continue to provide economic and technical assistance at approximately existing levels and not to extend a long-term loan to Turkey. The need of limiting Turkey's development rate to that consistent with a viable economy was emphasized.¹²

¹⁰*FRUS* [1989], 1955-1957, vol. XXIV, p. 660-1, "Memorandum of a Conversation," [American Embassy, Ankara, January 13, 1956]. After this event U.S. authorities were careful not to make any policy recommendation, which directly implied an exchange rate reform until 1956.

¹¹*Ibid.*, p. 661. It was also stated that "He [P.M. Menderes] passed the summer pleasantly in Istanbul; took no action toward opening negotiations with the United States; took only a few measures towards stabilization; and confronted with a sharp Turkish business reaction to even those he had taken."

¹²*Ibid.*, p. 627, "Statement of Policy on Turkey," [Washington, February 28, 1955].

The conversation between Prime Minister Menderes and Ambassador Avra M. Warren in April 1955 gives quite a clear picture of the underlying psychological influences guiding the Turkish government in the aid negotiations after 1954. Upon Warren's reiteration of his government's position on Turkey's loan request, and their concern over the inflationary trends in the Turkish economy,¹³ Menderes complained about the "criticism and cries of inflation of Americans since he had been in office," and added that "there was no significant inflation in Turkey and no danger of any." He expressed his determination to carry out his investment program, which was almost financed and he stated "Why should he take two years to do things terribly needed in Turkey, which could and should be done in one." He concluded that, "their refusal to help Turkey in her time of need would long remain to trouble their conscience."

On April 27, 1955, news about the resignation of L. Dayton, Chief of FOA in Ankara, as well as Ambassador Warren's visit to Washington, were both displayed in the national press. These events were considered signals of tension in the aid negotiations and it was pointed out that, "It was not left unnoticed by the political circles in Ankara that U.S.'s sincere attitude and interest towards Turkey seem to have been changing recently."¹⁴

In the meantime Max W. Thornburg had paid visits to Turkey in the spring of 1955 by invitation from the Turkish government. In press conferences, he declared that the sole purpose of his visit was to prepare a report on the economic conditions of Turkey to the Turkish government upon its request. He emphasized that his mission was not related to the U.S. aid.¹⁵ According to the information given by Ambassador Warren,¹⁶ Thornburg had an intimation that Prime

¹³Ambassador Warren stated that, "This led to outburst which, while in general tone 'more sorrow than in anger', was characterized by bitterness and by an intensity of conviction and determination beyond description," Ibid, s. 631, "Telegram from the Embassy in Turkey to the Department of State."

¹⁴*Cumhuriyet*, April 27, 1955.

¹⁵*Cumhuriyet*, June 5, 1955.

¹⁶*FRUS, 1955-1957*, p. 646, "Telegram from the Embassy in Turkey to the Department of State." [Ankara, June 7, 1955].

Minister Menderes was convinced to set up a special commission for economic and financial management. According to Thornburg "if such an organization were undertaken it would probably have to continue for several years until the country's economy was on feet and until there was an integration of planning and coordination with respect to the public and private sectors in the Turkish economy." In fact, thinking of the possibility of such a project was beyond imagination because of Menderes's "seeming phobia about any aspect of economic planning."¹⁷

Pushing for Aid: Fatin R. Zorlu's Visit to Washington

In May 1955 Deputy Prime Minister Fatin R. Zorlu visited the United States to obtain the \$300 million program loan. Before entering into aid negotiations with Zorlu, in an interdepartmental meeting, the U.S. position was being decided; there would be no additional aid, unless the Turks gave adequate assurances to take suggested necessary measures, and the aid, (which would be smaller than the Turkish request), would not be used to fund Turkey's short-term debts to European creditors.¹⁸

Zorlu had repeated the well-known Turkish arguments related to loan request.¹⁹ According to Zorlu the problem was a simple one, the United States must make a decision in principle as to whether or not it was prepared to help Turkey.

At the early stages of the negotiations, it seems that Zorlu had recognized the inflation problem of the Turkish economy and expressed his government's willingness to take corrective measures. But as the negotiations progressed it became clear that his recognition of the inflation problem was just a compromise to get into the matter,

¹⁷Walter F. Weiker, *The Turkish Revolution 1960-1961*, Brookings Institution, Washington, 1963, p. 12, quoted in Anne O. Krueger, *Foreign Trade Regimes & Economic Development: Turkey*, NBER, New York, 1974, p. 7.

¹⁸FRUS, 1955-1957, p. 663-637, "Memorandum of a Conversation, Department of State," [Washington, May 18, 1955].

¹⁹Ibid, p. 637, "Telegram from the Department of State to the Embassy in Ankara."

namely the additional U.S. aid. Zorlu complained about the narrow approach of the U.S. technicians to the problems of the Turkish economy. He argued, "There was no inflation in the usual sense of the word in Turkey, where 85 percent of the population had very little cash income and where importers' goods represented only 5 percent of the outlay of the average Turkish peasant." Zorlu responded to the indirect suggestion of a need for the devaluation of the Lira by saying that, "price was not an issue in intra-European trade."²⁰

While the U.S. authorities were insisting on questioning Zorlu about the measures his government was willing to take to stabilize the Turkish economy, Zorlu was trying to find out the amount that the U.S. government would be willing to extend before entering any discussion on possible corrective steps to be taken by his government. Although Zorlu stated that the Turkish government was ready to reconsider its future investment program, fiscal and credit policies, it was quite clear that they had no intention of implementing a serious stabilization program, if it was not backed by a substantial amount of U.S. credit.

The U.S. government had maintained its position, as determined before the negotiations. It seems that the economic measures that the Turkish government was prepared to implement were being found inadequate by the American authorities. Finally on June 8 1955, the U.S. decidedly refused to extend the credit requested by the Turkish Government. However, the U.S. decided to increase the aid figure that year from \$70 million to \$100 million with the expectation that the Turkish Government would take the remedial steps which had been brought forward during the negotiations.²¹

The Changing Character of the U.S. Aid Program to Turkey

Although the Turkish \$300 million loan request had been turned down, the U.S. increased the aid amount and relaxed

²⁰He implied some barter and clearing arrangements in intra-European trade.

²¹*FRUS*, 1955-1957, vol. XXIV, p. 647, "Memorandum of Conversation, Department of State," [Washington, June 8, 1955].

conditions.²² The *PL 480* program inaugurated in November 1954 gave the Turkish government the opportunity to import agricultural commodities from the U.S. without paying dollars. The cumulative value of the imports received under the *PL 480* program for 1954-1958 period was \$153 million, which was twenty-one percent of the total capital transfers. At about this time the U.S. softened the repayment conditions of some of its loans. In return of higher interest rates (4% instead of 3%), the U.S. gave Turkey the option to repay some loans in TL rather than in dollars. In the case of three loans Turkey obtained in 1955, 1956 and 1957, Turkey opted for Lira repayments, which amounted to \$70 million.

Another important change in the U.S. aid policy was the shift in the procurement policy; for the 1948-1954 period approximately seventy percent of the aid consisted of investment goods, but for the 1955-1958 period this share fell to twenty-seven percent. The largest part of the aid funds was gradually allocated to finance imports of raw materials and semi-finished goods, especially petroleum products.

The Randall Mission

In January 1956 the Turkish government requested an economic advisor from the U.S. government and mentioned the name of Clarence B. Randall (the President's special consultant), who had developed a good personal relationship with Prime Minister Menderes in his visit to Turkey in 1953 as head of a private business mission. It seems that the real purpose of this request was not to get some advice on economic matters but to reach President Eisenhower through Randall and to inform him of how desperate the economic situation in Turkey was. According to President Celal Bayar, "Turkish needs had been gauged by bookkeepers and small-minded

²²The information given below has been based upon Reşat Aktan (project director), *Analysis and Assessment of the Economic Effects of Public Law 480 Title I Program Turkey*, Ankara, 1965, pp.435, 446-449.

men who had kept attention of President Eisenhower from true state of Turkish needs and Turkey's importance to the United States."²³

Just before the arrival of the Randall Mission, Prime Minister Menderes announced a stabilization program that included a balanced budget, reduced Central Bank financing, self-financing on the part of the state economic enterprises, restrictions on agricultural credits, completion of investment projects which the state had already initiated and orderly procedures for the allocation of available foreign exchange.²⁴ The timing of the announcement of the program implied the Turkish government's concern of preventing any association between the program and Randall's mission. Randall found some initial governmental steps, along those lines, encouraging but not sufficient.

Randall stated that the Turkish government's efforts to stabilize its economy "merited a strong reciprocal vote of confidence from the United States." But contrary to the hopes of the Turkish government, Randall recommended to his government not to extend any "soft loan" to Turkey. He thought that an aid figure of \$100 million for 1956, as in the previous year, would be sufficient and the time and manner of making those commitments should be left to the discretion of the staff of Aid Mission in Turkey.

Although Randall saw devaluation inevitable, he never explicitly recommended it to the Turkish government because of the well-known position of Menderes on this issue.²⁵ According to Randall the devaluation decision "should be taken by the Turkish authorities on their own initiative without compulsion from the United States." He advised the Turkish government to consult IMF on

²³FRUS, 1955-1957, vol. XXIV, p. 668, "Telegram from the Embassy in Turkey to the Department of State," [January 17, 1956].

²⁴See for the details of the program, *İktisat Gazetesi*, February 6, 1956.

²⁵In his speech to the T.G.N.A. in December 14, 1955 Menderes stated that "With respect to the protection of the value of our money, our decision is that we shall never consider any change in the value of our money despite all sorts of propaganda to the contrary ...," *Prime Minister's Speech on Government Programme*, Anatolian Agency, Ankara, 24.2.1955, pp. 13-14, quoted in Z. Y. Hershlag (1968) *Turkey: The Challenge of Growth*, Leiden, E. J. Brill, p. 145.

financial and foreign debt²⁶ issues. In fact, that advice indirectly implied an exchange rate reform.

The Department of State informed its embassy in Ankara about the disturbing indications of the Turkish Government's hope for some spectacular gesture as a result of Randall's report and recommendations despite the clearly stated scope of Randall's Mission.²⁷ In his letter to the Department of State²⁸, Randall stated that the amount of aid granted pursuant to his mission to Turkey was being found, "inadequate to meet the public relations problem" and the \$300 million loan had still been expected by the Turkish government. He added that the Prime Minister had feared that his Cabinet would fall due to his failure to obtain the loan, and for this reason he had not yet announced the total of 1956 fiscal year's aid.

Randall recommended his government to release the facts to the press concerning the aid, in both countries, to negate the impression (which had been promoted by some members of the Turkish government,) that what the U.S. government had done was, "niggardly and unworthy of the relationship with a staunch ally." He also suggested allocating \$13 million of the aid to finance the importation of petroleum products and to use that allocation to persuade the Turks to open the exchange rate issue into discussion with the IMF working party who would come to Turkey for annual consultations in April 1956 in advance of its normal date.

The Turkish government reached an agreement with IMF on implementing a stabilization program and changing the exchange rate system.²⁹ In early June 1956 a Turkish delegation was present in

²⁶Randall's proposed solution related to the Turkey's short-term debt problem was "a multilateral plan of having all creditors around one table" through the agency of OEEC.

²⁷*FRUS, 1955-1957*, "Telegram from the Department of State to the Embassy in Turkey," [Washington, March 8, 1956].

²⁸*Ibid.*, 676, "Letter from the President's Special Consultant (Randall) to the Secretary of the Treasury (Humphrey) and the Under Secretary of State (Hoover), [April, 17, 1956].

²⁹I could not reach any document on the devaluation plan. According to Seyfettin Gürsel, "IMF," *Cumhuriyet Dönemi Türkiye Ansiklopedisi*, vol. 2, 1985. p. 495, the negotiations held in Vienna concluded with a new

Washington to work out the details of the stabilization program and to announce the new exchange rate structure scheduled for July 13th. However, the U.S. government received a "disturbing memorandum" on July 7th from the Turkish government informing the United States that they "had decided to re-evaluate the advisability of changing the exchange rate system due to the favorable effects on prices of the National Protection Law."³⁰

Upon this memorandum IMF authorities refused to enter into discussion with the Turkish delegation on its own proposed program. Also the U.S. authorities expressed their full support for the IMF recommendations and declared that unless the Turkish government carried out the exchange rate reform, it would not get the \$25 million extraordinary emergency aid, which the U.S. government had promised to extend in order to support that reform. For the first time the U.S. openly asked for the devaluation of the Lira. On July 10th the Turkish Minister of Finance cabled IMF in order to request postponement of formal Fund consideration of the Turkish exchange rate reform.³¹

The U.S. Embassy in Ankara attributed the change in Menderes's decision on the devaluation of the Lira as partly due to the influence of his associates who were opposed to the IMF recommendations. He also noted that U.S. financial assistance extended to support the reform was short of Menderes's expectations. According to him, "Menderes was more concerned about his personal popularity and effective party control than about stabilizing the Turkish economy."³² In fact, it was almost politically and economically impossible for the Menderes government to adopt such a stabilization program, which would cause a serious prestige loss without a substantial amount of aid.

exchange rate of TL 5.20 to the dollar and \$230 million credit and debt rescheduling (no source cited.)

³⁰FRUS, 1955-1957, vol. XXIV, p. 686, n. 3. *Law No. 6731*, passed June 6, 1956, and published in the *Official Gazette No. 9329*, June 11, 1956. This law empowered the government to impose strict controls over the commodity prices and introduced heavy punishments against profiteering and black-market activities.

³¹FRUS, 1955-1957, vol. XXIV, p. 686, fn. 3.

³²*Ibid*, p. 688, fn. 7.

Ambassador Fletcher Warren recommended to its government to make every effort to bring IMF and Turks together in order to reach an agreement on a stabilization program. He maintained his hope about the acceptance and implementation of a program by the Turkish government. He emphasized Turkey's importance to the United States as a valuable ally and the need to support her even if she failed to accept the IMF proposals.³³

Starting in June 1956 the Turkish government announced a series of new measures. These included: (1) price control law; (2) an increased Central Bank discount rate from 4.5 per cent to 6 per cent; (3) restrictions on the loans of commercial banks; (4) the special TL 5.25 and 5.75 rates for tourist and other current account transactions; (5) increased export premia.³⁴

In August 1956, a large group of Turkish officials visited the United States to negotiate with IMF officials. However it seems that the real purpose of the delegation was not to consult IMF officials on a stabilization program but to persuade Americans to increase the amount of economic aid. The Turkish government was also counting on help from Clarence B. Randall and Thomas Dewey, former Governor of New York and a capable lawyer, who was retained as a counsel in October 1955 to push for increased American aid.³⁵ All those efforts resulted in an aid figure that amounted to \$100 million, which was a fairly satisfactory figure for the Turkish government under those circumstances. The U.S. government once again was not able to say "no" to the Turks. The negotiations with IMF ended without producing any results as might have been expected.

It seems that the Turkish government did not reopen the matter of the \$300 million loan in 1957. There are two possible interrelated

³³He stated "It is lacking foresight to say she must go along with us whether or not we do anything. In this world in which we live today all the rules are being broken. I am sure Turkey would be forced to break a few before she collapsed economically. We must not let her go down." *FRUS*, 1955-1957, vol. XXIV, p. 690, "Letter from the Ambassador in Turkey (Warren) to the Under Secretary of State (Hoover), [Ankara, July 28, 1956].

³⁴Krueger, 1974, p. 64.

³⁵Aktan, *Analysis and ...*, p. 446.

explanations for this development. First, the Turkish government eventually realized that it could not get additional program aid "without putting its economic house in order" and, second because of the coming election in May 1958, it could not take drastic economic measures which would have been considered adequate by the United States. The government then rescheduled the election for October 1957 and relaxed the austerity measures.

Towards the Stabilization Program of 1958

The new Menderes cabinet, which came to office after the October 1957 election, seemed to be convinced to accept the implementation of a stabilization program. However, the Turkish government appeared to give priority, as before, to get external financing for the prospective program. In April 1958, the Turkish government requested external assistance and an arrangement for the settlement by installments of Turkey's commercial debts to European creditors in order to support the stabilization plan which the Turkish authorities were preparing.³⁶ In the meantime, the Turkish Government also approached the Federal Republic of Germany to seek financial support.

President Bayar wrote a letter³⁷ to President Eisenhower to request the help of the United States and the Federal Republic of Germany in order to channel the work of OEEC and IMF in "the right direction and facilitate and expedite the results" by using their influence on these institutions. Bayar expressed the determination and willingness of the Turkish government in taking the necessary steps in order to, "realize its economic development in a sound and stable manner" and he requested the financial support of the United States.

All the continued efforts of the Turkish Government resulted in no change on the U.S.'s position: the additional aid was conditional

³⁶*The Work of the Conference on Financial Assistance to Turkey and on Turkish Debts*, Organization for European Economic Co-Operation, August 1959, p. 9.

³⁷*FRUS* [1993], 1958-1960, vol. X, p. 747-50, "Letter from President Bayar to President Eisenhower."

on the preparation and implementation of a stabilization program in accordance with the suggestions of the U.S., as well as OEEC and IMF. The U.S. also warned Germany not to extend financial assistance to Turkey on a bilateral basis without regard to the views of the IMF and OEEC on the economic conditions of Turkey. The U.S., in light of her past experience, was suspicious of the intention and determination of the Turkish government to take the necessary steps to stabilize its economy.³⁸

By the end of July 1958 the negotiations between Turkey, the United States, OEEC and IMF resulted in a common aid program to support the economic stabilization program proposed by the Turkish Government. The program was announced on August 4 included the *de facto* devaluation and unification of the Lira, the imposition of ceilings upon central bank and commercial credits and upon budget deficits, import liberalization, change in export regime and the removal of price controls and increases in SEE prices.

The program was supported by an aid package. Turkey received \$233 million from the U.S in the form of grants (\$114 million), loans (\$76 million) and the postponement of debt repayments (\$44 million). OEEC and IMF agreed to lend to Turkey \$100 million and \$25 million, respectively. In addition, OEEC countries agreed to reschedule the repayment of \$420 million of consolidated debt over eleven years. Interest was set at 3 per cent per year.

Conclusion

The U.S. economic assistance program to Turkey during the 1950s presents a typical case in which the effectiveness of foreign aid is reduced by macroeconomic mismanagement in the recipient country. It should be pointed out that the program itself had contributed to that end by causing a delay in macroeconomic reform.

³⁸It was stated that, "they devoted greater efforts to seeking foreign aid than to developing a stabilization program." *FRUS*, 1958-1960, vol. X, p, 754, "Operations Coordinating Board Special Report," [Washington, June 18, 1958].

Turkish program loan requests starting in 1954 actually strengthened the position of the U.S. in the aid bargaining process in order to convince the Menderes government to pursue more sound macroeconomic policies. However, the U.S. could not use that card effectively until the summer of 1958. The U.S. military and political interests in Turkey made the termination of the U.S. aid program to Turkey virtually impossible. The U.S. could not take the risk of creating an image of a country that was reluctant to help a staunch ally in hard times. That argument, with the political-strategic importance of Turkey to the United States, was the most favored argument of the Turkish government in the aid negotiations. The U.S. was also fully aware of its share of responsibility in Turkey's ambitious economic development and defense programs which exceeded her means.

The additional aid that the U.S. government was prepared to extend was not enough to pursue an effective "carrot and stick" policy to force the Menderes government to make radical changes in its central economic policies. Zorlu's insistence in asking for the aid figure, before entering into discussions on the possible economic measures, should be recalled in this context. The U.S. policy of, "extending only the minimum amount of aid necessary to keep Turkey's head above water unless and until Turkey were to undertake policies of living within her means and so restoring stability and solvency,"³⁹ proved to be unsuccessful in convincing Menderes. An offer of a substantial aid package that Menderes could present to the Turkish public as a bargaining success that he made in 1958, would have been a better method of convincing Menderes to take drastic economic measures.

³⁹*FRUS*, 1955-1957, vol. XXIV, p. 664, "Memorandum of ...," [American Embassy, Ankara, January 13, 1956].