

Mr. Thornburg on the Turkish Economy

By

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I

The result of the 20th Century Fund Survey of the Turkish Economy conducted by Mr. **Max Weston Thornburg** and his associates Messrs. **Graham Spry** and **George Soule** has recently been published in book form in New York [1]. In view of the unquestioned authority of the writers and of the high level achieved by the previous surveys conducted by the Twentieth Century Fund, it is necessary to dwell at some length on the main lines of this Survey and on certain conclusions it reaches as to the future of the Turkish economy and as to the possibilities of foreign, e.g. American, help to Turkey.

Besides spending approximately six weeks in the country, being piloted round by officials provided by the Turkish Government, the research party had access to information supplied by official departments and was able to contact many Turkish people in either public or private life. The Report was subsequently written in America on the basis of the material collected during the trip and of such other data as were available. The method followed in the Report is to combine at all stages, personal observations, general impressions, historical facts and contemporary evidence. The personal touch thus introduced lightens the otherwise rather heavy subject matter of the book and makes for easier and more agreeable reading. The authors have on the whole succeeded in drawing a lively and interesting picture of the Turkish economy.

A highly important characteristic of the authors' approach and one for which we have to be very grateful to them, is the great frankness

[1] Turkey, an Economic Appraisal. The Twentieth Century Fund, New York, 1949.

and openness they have displayed throughout the book. The main drawback of most studies or reports written about Turkey is the fact that, very often, they show traces of reserve and lack of directness in the treatment of the problems that are dealt with. This is sometimes the result of giving undue weight to political considerations. This also sometime arises from fear of hurting the often quite exaggerated susceptibilities of the Turks. As a result, most of these studies present a one-sided aspect of Turkey and tend to become mere apologia of the existing order and of the political regime of the country. It cannot be too often stressed that this attitude, which apparently springs from consideration towards this country, is in fact extremely detrimental to it. It gives a distorted view of reality and thus prevents any objective discussion of the problems. The only solution of these problems lies in a frank and critical discussion of the issues that are involved. Hard and clear thinking on the part of all concerned is the first condition if the aim is to secure a much needed expansion in the Turkish economy.

Although one may not be always in agreement with their conclusions, the outspoken and frank approach of Mr. **Thornburg** and of his associates proves they have meant well and have remained completely sincere throughout their work. It is to be hoped that their purpose will not be misunderstood in Turkey, even in these official quarters which are likely to feel themselves the target of criticism. Obviously the authors have put themselves the question: This is a country which has an abundant supply of natural resources, easily accessible on account of its long coastline, and with large reserves of man-power. What is there to be done about its development? How is it going to be stimulated into becoming an ever-expanding economy in the Western style?

The answers they give to this problem spring naturally from their basically American businesslike way of thinking. Perhaps their minds have gone back one or two centuries into the past and have drawn largely from the rich experience of America's amazing development. In any case, their whole approach seems to be influenced by the idea that, given the necessary conditions, what has been possible in America can also very well happen in Turkey in spite of great differences in the human element on both sides. Many of the conclusions and recommendations of the Survey flow from these premises. This approach no doubt has its advantages, because the problem is essentially one of creating more wealth than is consumed, and in this respect, the American competitive system with its high level efficiency and ultra-modern technique has proved of course unrivalled. The realistic approach of the

American businessman in weighing the pros and cons of a certain line of investment, the continuous thinking about alternative methods of production and sources of supply, the elimination of all waste and the adoption of rigid priorities in the pursuit of a determined goal, all these elements should enter into the thinking of those responsible for the development of Turkey. A regard for political motives, sentimental considerations of any kind, favoritism and the like cannot be allowed, if the job of developing the economy of the country is to be done at all properly. The hard businesslike approach adopted by Mr. Thornburg in his survey has certainly the great merit of bringing to the foreground this essential condition of the solution to the problem.

On the other hand, this approach also has certain drawbacks. The authors tend to assume that, if only full scope was given to free enterprise, the Turks would exhibit the same rationalistic behaviour as the Americans and would start exploiting their natural resources with thoroughness and efficiency. There may be a certain amount of truth in that, but there are certain irrational psychological elements in the Turkish character which render it very different from the American. These elements are thus neglected or considered as easily changeable. With American advice and supervision and by adopting similar institutions, it is thought that the Turkish economy will gear itself quickly to Western tempo. With reference to this, one may observe that although there have been important changes in the country since the Revolution, mental habits are not easily modified, and it is a matter of conjecture to what degree and how fast the mentality of the people in Turkey will continue to change in the future. This is completely apart from the question whether complete Westernization with renunciation to all ancient traditions is desirable or not. This neglect of psychological factors sometimes gives the conclusions of the Survey an appearance of unreality.

Before coming to discuss the subject-matter of the Report, one or two further observations of a general nature can, I think, be made. The acquaintance of the Survey's authors with Turkish conditions is evidently rather new and a two months tour of the country, backed by such statistical evidence and data as it has proved possible to collect, will not suffice to produce a detailed and thorough study of the Turkish economy. Although the aim of the authors has rather been to give a general and rough sketch of the Turkish economy, together with an outline of recommendations and suggestions, the treatment might easily have been less superficial in parts and certain inaccuracies and

obscurities which are to be encountered in the book, could, I think, have been avoided. For instance in the Chapter retracing the history of the Turkish Revolution, the first two or three sentences on page 17 place the institution of the Republic in summer 1920, the real date being of course October 1923. Further, one comes across certain passages which are so worded that it is difficult to arrive at the exact meaning implied. An example of this is found on page 34 where the fate of private enterprises under the first five-year plan is discussed. After indicating that fair prices were paid to the foreign owners of the nationalised public utility companies and of the Zonguldak coalmines, the authors go on to say: «More injurious to the future of business was the severe capital tax imposed on private owners of minority interests in enterprises in which the state was a participant». Which is the capital tax in question? When was it imposed? A further sentence in the same page would imply that the authors are referring to the capital levy (**Varlık**) imposed much later, namely during World War I, as an extraordinary contribution. In any instance, the vagueness of the wording leaves much to be desired. Finally, one may add that one misses at the end of the book, a bibliography of previous studies and books on the subject. Throughout the book, references to any such studies are not to be found.

II

The gist of Mr. **Thornburg's** impressions of this tour in Turkey lies in the extraordinary contrast he has noticed between the Turkey of the jet-plane and the Turkey of the ox-cart. Industrialization there has been, but as yet, the industrial revolution has barely touched the daily lives of the Turkish people (page 253). The great majority of the Turkish people is made up by the peasants. This is what Mr. **Thornburg** has to say about the peasants: «Official interest in the peasants has not been greatly in evidence except for political purposes ... Both the means and the desire for better living must be provided if Turkish peasants are to become part of the Turkish Republic» (page 49). Therefore the main problem is to close the gap between the two Turkeys thus existing side by side.

The first step taken by the authors of the Survey in tackling this problem is a criticism of the policy of Etatism inaugurated by the Turkish Government in 1933. They criticize the directions in which investment was made to flow under the planning of the Government as over-

ambitious and stress the fact that the first normal stages of industrialization (foundries, light manufacturing industries, food industries) have been very often by-passed in favour of such ambitious projects as iron and steel works, engine and airplane factories. The direction of investment has had little regard to the **real needs** of the Turkish public and has instead allowed great waste of resources to take place. Mr. **Thornburg** seems to exaggerate the influence of Soviet and German examples in determining the policy of Etatism followed in Turkey. But he also recognizes that the Turkish brand of Etatism is very different from the State planning as known in the above mentioned countries. In effect he says : «What we see in Turkey looks not like a planned economy, but like a poorly managed capitalist economy in which most of the capital happens to be supplied by the Government». He further continues : «The result is a hybrid which does not embody the best potentialities of either of its parents» (page 39). This appears to me as a shrewd judgement on the contemporary Turkish state industrial system. On one side, Turkish State industries lack the completely coordinated, well planned, and socialistic character prevalent in the German or Russian systems, and on the other, they also do not present the low-cost and high efficiency characteristic of capitalistic industries. Mr. **Thornburg** rightly comes to the conclusion that «a reassessment of the methods and results of Turkish industrialization under Etatism would now seem to be in order» (page 42).

The criticism to which Mr. **Thornburg** subjects the past operation of State establishments is certainly justified and, if anything, is not perhaps comprehensive enough. He mentions political interference from above, but the most important reason he finds for the maladministration of State undertakings is given in the following passages about the Eti Bank (State Mining Concern) : «The management of each exploitation establishment is relieved of responsibility for solvency of its enterprise». «Though each establishment prepares a yearly statement showing its profit or loss, the profit, if any, remains in Eti Bank since the latter has collected the payments for the sales and merely distributes to its subsidiary the money necessary to cover its expenses. If there is a loss, this is borne by Eti Bank as a result of the same process. Profit and loss are thus merely a matter of book entries, they do not indicate the degree of efficient operation and are without much effect on the survival, the contraction or expansion or managerial practices of the subsidiary concern» (page 95). Apart from this question of responsibility, which is obviously a very important factor in the operation of

an industrial undertaking, there are other reasons —sometimes related to the above-mentioned one— making for inefficiency in Turkish State industries. In an article which he has contributed to the «Middle East Journal», Prof. **Ömer Celâl Sarc** summarizes some of these in the following lines : «The competence of their (Government factories) managers is limited and the many formalities to which the latter are subject renders it impossible for them to take quick decisions. Salaries are insufficient and are paid according to a fixed tariff, their amount depending less on ability than on years of service [2]».

Along what lines should the reorganization of Turkish industry proceed? What should be the part played by private enterprise in the industrial economy? These are some of the problems that need a solution.

It is not necessary to stress that Mr. **Thornburg** is a firm believer in private enterprise. In this survey, although he does not take the line of opposing State enterprise altogether, he thinks that State factories should be allowed to continue their activities only if they are at least as efficient and produce at as low a cost as the private firms.

The difficulties of establishing such cost criteria are notorious. Thus it would appear that Mr. **Thornburg** is thinking of the problem simply in terms of State enterprise versus private enterprise, then jumping naturally to the conclusion that private enterprise is to be preferred. But in the special case presented by Turkey, the solution does not seem so easy. It is necessary to weigh carefully the pros and cons of the question.

In the first place, there is the question of the disposal of the already existing State industrial establishment in case they do not fulfil the criteria of efficiency laid down by Mr. **Thornburg**. Although he is not himself very explicit about their future, presumably he would suggest their being turned over to private enterprise. It should be remembered however that the investment of the State in industrial establishments represents several hundred million liras (at original cost) and it may be doubted, for reasons to be explained later in the section on the overall financial situation, whether enough private capital to purchase even a small proportion of State investments will be forthcoming.

Secondly, the problem of the emergence of the spirit of private initiative has to be faced. Turks are new to business and commercial life. Although in the past twenty years we have witnessed the rise of some

[2] Cf. **Ömer Celâl Sarc**, Economic Policy of the New Turkey, «The Middle East Journal», Vol. 2, No. 4, Oct. 1948, page 443.

entrepreneurs, capable of directing large-scale undertakings, this is still a rather isolated symptom in Turkish economic life. Turks are still apt to prefer a secure life, generally as Government employees, to the risks inherent in business. This mental attitude may change in the future, but the change will only be a gradual one.

It seems more appropriate not to consider the problem too dogmatically and to continue to strive towards a mixed economy, but one which would try to make the best of both worlds, instead of the worst, as has been the case up to now.

This brings us of course to the difficult question of the reorganization of State industrial establishments on more efficient lines, but the realization of this undertaking does not seem impossible. As Mr. **Thornburg** himself admits, there have been one or two State industrial establishments which have distinguished themselves by a high level of efficiency. The sugar industry is an example of this type of undertaking. There is no inherent reason why mining undertakings or textile and cement factories should not also achieve a higher standard of efficiency, provided they adopt more rational methods.

The main problem is to give more independence to each exploitation and to make managers really responsible for the achievement or failure of their establishments. Accounting improvements should be introduced which would enable a more exact computation of costs. In this case, for instance, the employment of some American accountants in industrial establishments would be of great value. Unilateral price-fixing by State establishments enjoying a highly protected or a monopoly market should give way and price exploitation of the consumers should cease, as recommended by Mr. **Thornburg**.

The second great problem raised by Turkish industrial development is the question of determining the directions into which industrial investment ought to be canalized in the future. In other words, what is to be the order of priority of investments in the various fields? As we shall see further on, when dealing with agriculture, Mr. **Thornburg** thinks the most pressing priority for overall investment lies at the present time in the direction of public works and irrigation.

Then the second step would be the creation of light industries of miscellaneous variety: «Implements for producing and transporting crops, many of them simple things like plows, hand tools, wagons are required.....». «Canneries and drying plants for fruits, vegetables, meat and fish, utilizing abundant supplies of crops which Turkey is ideally suited to grow and located in the heart of a half starved Middle East could

compete successfully with any in the world» (page 187). Mr. **Thornburg** thinks that here is the best opportunity for private enterprise, both domestic and foreign, provided it is to be encouraged within the Turkish economy. The directions into which Mr. **Thornburg** envisages industrial investment to flow seem to be the right ones in the present stage of our economy. To be successful, the industrial revolution should evolve gradually, as it were step by step, and not by leaps and bounds. Until now, with certain important exceptions (textiles, cement, sugar) the development has tended to be jerky rather than gradual. The execution of such fantastic projects as airplane, engine or locomotive factories is indeed an anachronism in the present state of the economy and represents a waste of resources which cannot be afforded. We shall return to the question of the financing of new industries in Turkey when we come to discuss the monetary situation and American help to Turkey.

III

The authors of the Survey are of the opinion that agriculture is, and will continue to be, the basic foundation of the Turkish economy. They have noticed that, paradoxically enough, the economic development of the country has barely touched the basis of its economy, except for one or two crops (tobacco and cotton) and for a few modern farms. This is certainly the field which deserves top priority in the national programme of development. But before anything can be done about improving the very primitive methods prevalent in agriculture itself, Mr. **Thornburg** thinks that the main effort should be directed towards implementing a public works programme designed to provide the country with a good all weather roads system to allow for the transportation of agricultural products, with storage facilities for the crops and with an irrigation system which will permit large tracts of uncultivated lands to be brought under cultivation. It is useless to increase agricultural production when crops are allowed to rot and when the surplus areas in the country cannot feed the deficiency areas for lack of transport. The soundness of this advice cannot be contested. First under the Military Aid Program and subsequently under Marshall Aid, approximately something like 10 million dollars have been made available for purchasing road building and road maintenance equipment. On the other hand, the appropriations of the Turkish Ministry of Public Works have been increased from 84 million liras (1947 - 1948) to about 115 millions (1948-

1949) and although it is not known what percentage of the increased allocations (equivalent to about 6 million dollars at the official rate) have been devoted to the road programme, it is probable that an important proportion of them has gone to road building. Under the new five-year plan of the Turkish government, the foreign imports considered necessary for the execution of the road programme total 22.250.000 dollars [3]. This means that something like a little less than half the imports necessary to implement the programme has already been imported. The internal finance needed to implement the five year road-building programme totals 37.2 million dollars [4]. This is equivalent, at the official rate, to 111 million Turkish liras. Although very little information is given by the Ministry of Public Works on the development of the road programme, it is understood that work on the road linking south-eastern Anatolia to the North and to the Black Sea port of Trabzon is making good progress. It must be noted however that, apart from highway construction, which sometimes is dominated by strategic considerations, agriculture badly needs a network of local and regional roads.

Coming to agriculture proper, according to Mr. **Thornburg**, a necessary condition for the adoption of better methods is a Government programme for assisting and instructing the farmers. American experts can be of great help in this matter. Storage facilities for crops and other agricultural products (meat) must be provided. Mr. **Thornburg** thinks that technical know-how and some dollar credits to be used in the purchase of steel plows, hay balers, threshing machines, farm wagons, wheelbarrows, and pitchforks are much more urgently required in Turkish agriculture than tractors. We reproduce in the following the interesting passage in which Mr. **Thornburg** passes judgement on the need for tractors: «The lack of tractors has not yet become a limiting factor in Turkey's agricultural development. The use of tractors requires facilities for their repair, which are to be found nowhere in Turkey to-day. Farming with tractors, generally speaking, is warranted by one or more of three conditions: short seasons, with a consequent need for speed; lack of farm labour; vast areas to be cultivated. Outside of a few State farms, Turkish farm lands are characteristically small holdings, as a result of the land tenure system. As agricultural life is stimulated and new land is brought under the plow, tractors unquestionably

[3] Cf. Turkey, An Economic Appraisal, Appendix 3, page 302.

[4] Cf. E.R.P., Turkey, Country Study, Washington, 1949, page 37.

will be necessary -for all three of the conditions just stated will face the Turkish farmer before many years have passed. It is not tractors that Turkey needs now, nor dollars to buy or build them» (page 222). It is difficult to understand how Mr. **Thornburg** envisages, in this context, a shortage of agricultural labour before many years, since, in another passage on manpower, he mentions the prevalence of much idle time on the farms (technically : hidden unemployment) and makes the following comment on this question : «The consequence of the prevalence of idle time is that a good deal of labour could be drawn into industry without seriously depleting the labour supply of agriculture and other traditional occupations» (page 127). This, however, is only a minor point. On the whole, it is interesting to note that the judgement of Mr. **Thornburg** on the need for tractors cannot well be reconciled with the present agricultural programme under Marshall Aid. According to this programme, several million dollars worth of tractors and agricultural machinery have been imported into Turkey. Some of these are being sold to the farmers on an instalment basis, while others have been delivered to State farms or to the larger cooperatives. It is regrettable that more precise information should not be given out by the Ministry of Agriculture on the distribution of tractors, the progress made in using them in cultivation, the increase in cultivated acreage, etc. There is also a Government programme to train mechanics who will help in operating maintaining the new agricultural machinery. It is too early as yet to pass a judgement on the results of the agricultural programme. Barring catastrophic weather conditions such as have prevailed this year, it is estimated that the Turkish cereal production will amount to 7.710.000 tons in 1949 - 50, leaving theoretically 150.000 tons for export[5], nearly the same output as the pre-war average. Even if the goals set in the present Agriculture development programme are achieved—which is not at all certain—it should be noted that this programme will only affect State farms, the larger farm units and perhaps the bigger cooperatives. The great mass of the 16 million Turkish farmers, the overwhelming majority of whom own holdings of less than 200 acres, will be barely touched by it. Mr. **Thornburg** is right when he stresses the imperative need of helping them to improve their extremely primitive techniques and thus increase their standard of living. Until the Government tackles this great problem, the agricultural development programmes it puts forward will be little more than a drop in the sea..

[5] Cf. E.R.P., Country Study (page 32).

IV

An appraisal of the overall financial and monetary situation is necessary if one is aiming at a comprehensive development programme involving large investments, internal as well as foreign. Unfortunately, as Mr. Thornburg points out, the statistics on national income, savings, investment, consumption, and the balance of payments which this sort of appraisal presupposes, are almost non-existent in Turkey and such as there exist are very unreliable. One is obliged to rely most of the time on extremely hazardous guesses and this makes the economist's task difficult. It is very important to obtain an idea of the impact of the investment programme and of the Government budget upon the national income in money terms and upon the total effective demand so as to estimate the extent of inflationary or deflationary pressure that making itself felt in the economy.

It is an ascertained fact that the large price inflation which occurred in Turkey during the war has very severely hit fixed-income receivers in the country, a great number of whom have seen their real income go down by between 1/2 and 1/3 rd, in spite of the salary increases which have been granted [6]. The majority of fixed income receivers being Government officials and local administration employees, who have no other sources of income to speak of, the large cuts they have experienced in their real income have reacted on their standard of living and this seriously impaired their working efficiency and their standards of behaviour. This state of affairs is having grave repercussions on the general administration of the country with parallel effects on its economic life. Any aggravation of inflationary pressure with a consequent further deterioration in the position of fixed income receivers should be avoided at all costs. It is already a significant factor that the index for wholesale prices in Turkey has been **rising steadily since 1947**. In March 1949, the index was standing at 121 (1947=100) [7]. Except for France, Finland, and Greece, this increase was much higher than the average increases registered by other European countries. This

[6] Cf. *F. Neumark*, Report on the rationalization of State departments and exploitations (Devlet daire ve müesseselerinde rasyonel çalışma esasları hakkında rapor), page 25, Ankara, 1949.

[7] Cf. *Bulletin Economique pour l'Europe*, Nations Unies, Genève, 1949, page 38.

situation certainly indicates the existence in Turkey of continued inflationary pressure. It seems that the authors of the 20th Century Fund Report have not given this question all the importance it deserves. Their analysis of the sources of inflation in Turkey is also open to criticism. Writing in 1947 about the sources of war-time inflation, they appear to have regarded the inflation as mainly caused by the favourable balance of trade of the country during the war years and by the operations of the great State banking and industrial undertakings which are said to have financed manufacturing and mining enterprises and to have thus contributed to swell incomes, while production has not been increased (page 162). Deficit financing through the budget is not considered by them as having been a major source of inflationary pressure.

It is very difficult to agree with this view of things for several reasons. In the first place, the most important increases in the price level during the war occurred in 1942 and 1943, the wholesale price index reaching a figure of 339 in 1942, from 175 in 1941, and then rising again steeply to 590 in 1943 (1938=100) [8]. On the other hand, the positive trade balance amounted only to the insignificant sum of 15 million Turkish liras in 1942 and this favourable balance rose to just 40 million liras in 1943 [9]. It is not possible to believe that small surpluses such as these have been an important factor in causing the large price increases which were registered at the time. Secondly, during the war, the Turkish Government had to interrupt work on the second five-year industrialization plan. Therefore no important financing of industrial enterprises through the State banking agencies took place at the time, and even if such financing had taken place, it would have been reflected in the general budget (through appropriations appearing in the budget of the Ministry of Finance). It is therefore to the deficit financing of the Government during the war-years that one has to turn mainly in order to explain the inflation that has occurred in Turkey. Contrary to the authors' belief, most of this deficit has not been financed by Government loans to the general public. There have been advances of more than 200 million liras from the Central Bank to the Government and a large part of the Treasury bonds issued by the Government to finance growing expenditure have been placed with the Central Bank and other Banks, which have also had, from time to time, to buy a proportion of the longer-dated Government bond issues. The

[8] Cf. Turkey, Overseas Economic Survey, London 1948, page 161.

[9] Cf. *ibid.*, page 41.

percentage of the deficit financed by selling bonds to the public and which therefore might have had no effect on inflation, is quite small.

As we have pointed out above, the recent rises in the wholesale price index, since the Survey Group came here (1947), indicate the existence in Turkey of continued inflationary pressure. This is due to several factors. In the first place, it is being found difficult to balance recent budgets owing to the inability of the Government to reduce expenditure and to finance, as intended, the current (1949) budget deficit of approximately 150 million Turkish liras, by long terms loans to the general public. An increasing portion of these issues have to be taken up by the banking system. Secondly, a very large proportion of Government expenditure is of an unproductive nature. Apart from the great sums spent on national defense and on the salaries of an overgrown bureaucracy, a substantial proportion of central and local expenditure is directed to such things as constructions of monuments and public buildings, representing completely unproductive investment. Thirdly, such private investment as takes place is largely in the form of dwellings or apartments and therefore cannot be said to be productive in an immediate sense.

The outcome of this general situation of unbalance in the capital budget of the nation is highly unsatisfactory. It is obviously impossible to start a large scale development programme on top of the existing heavy public and private expenditures of an unproductive character.

Until inflationary tendencies have been brought to a stop by achieving a real balance between investment expenditures and the current saving of the community and by redirecting the flow of investment towards more productive channels, further development programmes will only add to inflationary pressure. Mr. **Thornburg** is quite right when he complains of the absence in this country of coordination in economic policy and of an overall economic agency which would estimate trends in total economic quantities, evaluate current and probable future savings of the community and other resources which might be made available and draw up accordingly a comprehensive investment policy which would have no inflationary consequences. This is an imperative condition of any large scale development programme.

On the other hand, I cannot unfortunately agree with Mr. **Thornburg's** views about the amounts of private capital which would be forthcoming if it felt more secure as regards arbitrary Government interference and if it were provided with adequate legal safeguards. Mr. **Thornburg** takes a very rosy view of the situation and thinks that «if

a more favourable atmosphere... were to be created, an indefinite amount of domestic capital might be available» (page 181). In another passage, referring to «drawing out the hoardings» (page 199), he speculates on the possible amount of domestic capital that would be released from such resources as investments in government bonds, in real estate, in private saving deposits, and currency hoards. He seems to argue as though these amounts would be available to finance new investment, although he admits in a rather obscure fashion that «it is impossible to arrive at any total by adding these figures, since there is duplication involved. Even if there were an opportunity to invest in business, some money would still be hoarded, some would go into real estate, and into government bonds» (page 200). The larger part of the capital to which Mr. Thornburg refers has been accumulated throughout a long period of years, and is now represented by concrete pieces of investment in the country. Therefore, it would of course not be available, as a whole, to finance any **new net private investment**.

As to currency hoards, it seems that the currency already in circulation is not always even adequate to satisfy the demand for cash arising from the transactions motive at the present levels of prices and incomes. The hoarding that there is, takes place in gold. I do not think there can be any justification for the view «that currency hoards to the value of 100 million liras can be conjured out of nowhere» (page 199). As to the large amounts of capital held abroad by Turkish nationals (which are estimated, as a rough guess, at some 100 million dollars in the Survey), these represent, to a very small degree, the capital which Turks possessed abroad before the introduction of exchange control in 1930, while the rest are the result of illegal operations of evasion. As Mr. Thornburg indicates, this capital could eventually be used to provide some of the external finance needed for Turkish development.

What will be the future capacity of the Turkish community to generate savings? In view of the present state of statistical knowledge, it is impossible to form any true estimate of this quantity. Moreover, the total demands which will be made on the savings of the community by public and private investment in the course of the next years are also not known. But it is very doubtful whether the domestic saving of the country can provide the finance that will be required if, on top of the existing official five-year programme, private enterprise also starts expanding its activities in the manner contemplated by Mr.

Thornburg.

Obviously there will be a necessity for investment regulation in the future if we are to avoid continued inflation. Moreover, the low average saving propensity prevailing in the Turkish economy will probably not suffice to provide enough savings to finance the large-scale public works, public health and light industrial programmes needed, if there is to be at the same time some increase in the average standard of living. The only possible sources of finance for these programmes then are : a) cuts in the consumption of the country, b) foreign credits. The first alternative supposes an economy on authoritarian lines in which desired consumption levels, which allow a sufficiently rapid programme of development, are enforced. The second alternative would permit a much more liberal economy while keeping an over-all control in certain strategic fields. All this discussion, in which we can go no further than establishing certain generalities, again shows how necessary it is to have more exact bases for estimating the impact of our programmes upon the economy.

V

We shall end this commentary of the Twentieth Century Fund Study of Turkey by reviewing shortly the recommendations the authors make as regards **foreign aid to Turkey**. The aid meant is not the short term aid such as represented by E.R.P., but mainly the long term private investment which Americans, prompted predominantly by commercial considerations and the profit motive, will undertake in this country.

Mr. **Thornburg** thinks quite rightly that the problems confronting private enterprises in Turkey, whether they be domestic or foreign, are essentially alike. What is needed is the removal of laws and taxes obstructing the development of private enterprise and the cessation of arbitrary political interference with the course of business. In other words, the only way out of the stagnation which characterizes the present economic situation of the country, unless indeed the policy is to centralize all investment within the State, is to provide an atmosphere of social security in which domestic and foreign private investment in productive equipment can also take place freely. There is no escape out of this dilemma. The liberal solution of this problem forms, as Mr. **Thornburg** indicates, (page 204) the primary condition of a revival

of private investment in Turkey. It should be noted that Mr. **Thornburg** does not pause to consider the purely authoritarian alternative and its implications as regards American help.

Having laid down his condition, Mr. **Thornburg** proceeds to examine first the current Governmental needs for foreign credits and then the industrial opportunities for foreign investment. Mr. **Thornburg** thinks that the Government is in great need of large numbers of advisers and consultants, such as general consultants to study overall needs and resources, technical experts and engineers for public works, experienced specialists in geology, mineralogy, chemistry, architecture and agricultural experts. One is rather left wondering about the probable experiences of this army of experts when they come into contact with rather different Turkish officials or institutions. And then, how is their huge salaries bill to be paid? Mr. **Thornburg** apparently thinks the resources of the Turkish Government will suffice for this. The recommendations of Mr. **Thornburg** concerning the dispatch of all these experts do not all seem to be very realistic. Some high level experts might be of value to the Turkish Government in certain key positions, but the need for technical aid at a lower level seems to be much more urgent. For instance in industry, such people as foremen and accountants could help greatly in bringing about more efficient ways of production and better accounting practices. Especially in agriculture, practical experts to teach the small farmer how to make gradual improvements in his methods would be very useful. The financing of this more modest technical help would of course still present a problem.

Then, Mr. **Thornburg** reviews the need of Government departments (apart from the industrial and mining establishments of the Sumer and Eti Banks) for foreign credits. He comes to the conclusion that, since the need for road building equipment has been met and since the railways, shipping and airlines have been already partially provided with foreign credit, «the Turkish budget is adequate to **finance every measure** which is necessary to enable a vigorous economic growth in the country and the foreign exchange on hand, including unused credits, is likewise adequate to meet the budgeted needs for dollars» (page 223). But, as was indicated above, owing to the large expenditure on the salaries of an overexpanded bureaucracy, to the national defense expenditures and to certain other expenditures, the present position of the Turkish budget is far from easy. Since Mr. **Thornburg** wrote, there have also occurred important reductions in the Turkish gold and foreign exchange holdings, from 307 million dollars in 1946 to 202 million

dollars in 1949 [10]. It would seem therefore, in accordance with our above discussion on the sources of finance for a Turkish developmental programme, that if a satisfactory solution to the whole problem can be found and if State enterprise is to have any place at all in the development programme, provision will have to be made for a certain amount of foreign credits to the Government owned industrial establishments. When Mr. Thornburg says that «as far as the government administration is concerned, the present need is not for dollars, but for a reorientation of its objectives and efforts» (page 223), he is of course expressing his dissatisfaction with the results of the Government's policy of Etatism and he is indicating the need for a reassessment of the methods of Etatism. He is completely justified in asking for this, and there is no doubt that, if a place is to be made to State enterprise in the future development of the country, these methods will have to change. Nevertheless, if a revitalized State industry is to take part in development, it will stand in need of foreign credits. As it was indicated above, the programme of technical assistance would also seem to necessitate some American governmental credits.

Mr. Thornburg devotes a lot of space to a review of the opportunities for American private capital in the development of Turkish industry. He discusses at first, in general, the methods which such participation might take. He then reviews the particular fields where American capital can be invested. He thinks the greatest opportunities are in food and the processing of agricultural products, manufacture of agricultural implements, cement, other building material (bricks, tiles), foundries for iron and steel and other metals, certain other light industries. He also dwells on the possibilities of tourism.

Mr. Thornburg thinks that, at the beginning, special agreements providing adequate protection for new foreign capital wishing to operate in Turkey, should be negotiated between each company and the Government, the National Assembly authorizing the making of such agreements. One cannot see how this legal discrimination in favour of foreign companies will really lead to their being effectively protected against arbitrary action, if the general political outlook and system remain unchanged. The principal condition for the equitable treatment of all private enterprise lies in the achievement of greater stability in the political and social system of the country.

[10] Cf. International Financial Statistics, August 1949, Vol. II, Number 8, page 120.