

Economic Developments in Turkey According to British Annual Reports (1960-1970)

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Abstract

This article aims to reveal the economic developments occurring in Turkey between 1960 and 1970, as seen through the eyes of British diplomats. Its intended readership is non-specialists who want to understand more about Turkish economy in 1960s. As in any country, the transition from single-party rule to the practice of multi-party system was not an easy process in Turkey. In spite of their overwhelming victory in the 1950 general election, the leaders of the new Democrat Party still suspected, justifiably, that many of the senior bureaucrats and army officers would retain their historic loyalty to the People's Republican Party (PRP) in opposition. Hence the increasingly strong measures that they took to try to curb their rival's power and influence. For example, their proposal to establish a committee to investigate allegations that the PRP was engaging in subversive activities, a plan that was one of the major causes behind the anti-Democrat coup of 1960.

Politics before 1950 were limited to a small élite within the bureaucracy, and even smaller number of entrepreneurs and businessmen, almost all mutually known. However, after the first open elections in 1950, Turkey's politicians were forced to respond to a large national constituency and to find ways short of maximizing the distribution of resources and rewards of office on a much wider scale. An exaggerated importance is often attributed to the Democrats' rhetorical support for free enterprise. However, the period during which they tried to adopt liberal economic policies was relatively short and, as early as 1954, they were already returning to more overtly statist measures,

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involving a reinforcement of bureaucratic control over a significant proportion of economic activity.

The military coup of 1960 was clearly aimed at overthrowing an increasingly authoritarian Democrat Party government from power. Because this seemed to be the sole purpose of the military plotters, influential groups of intellectuals and officials took advantage of the situation to introduce their own programmes of reform. One of these was the effort to centralize previously erratic economic interventions within a new state planning organization with power to allocate cheap government credit and scarce foreign exchange. Such measures resulted both in a growth in administrative power and in the increase of interest groups with more pressing demands. They also helped to intensify a process of rapid economic and social change marked by an increase in industrialization, urbanization and labour migration abroad. The result was the creation of new classes, new relationships between interest groups and government and, at a national level, a new political and electoral geography.

Despite the lack of structural economic reform, the Turkish economy in the 1960s grew at the expected target rate set by the State Planning Organisation (SPO). This constituted almost an industrial revolution and a take-off of a kind which few other Third World states had yet managed. The economic climate in the world economy was favourable. More importantly, Turkish workers in Europe began to send home large sums of foreign exchange which enabled the country to import capital goods and raw materials for its industry and maintain an equilibrium in the balance of payments. Unfortunately, the expansion of the economy was uneven and unhealthy in the long run. Production in agriculture and industry increased only 75% as fast as the planners had hoped, while growth in the construction and service sector. Moreover, the economy became overly dependent on foreign exchange sent by Turks working abroad, a source that was unpredictable and dependent on the boom in Europe. When the downturn came in the early 1970s, the consequences for Turkey were severe. However, by the end of 1960s, the character of Turkey's economy and society had changed almost beyond recognition. Before the 1960s, Turkey had been predominantly agrarian with a small industrial sector dominated by the state. By the end of the decade, a substantial private industrial sector had emerged so much so that industry's contribution to the GNP almost equalled that of agriculture. However, there was still a long distance to be covered before Turkish economy could recover.

Key words: Turkey, Turkish Economy, Democrat Party, Justice Party.

İngiliz Yıllık Raporlarına Göre Türkiye’de Ekonomik Gelişmeler (1960-1970)

Özet

Bu makale, Türkiye’de 1960-1970 yılları arasında meydana gelen ekonomik gelişmeleri İngiliz diplomatların bakış açısına göre ortaya koymayı amaçlamaktadır. 1960’lı yıllarda Türkiye ekonomisi hakkında daha fazla bilgi edinmek isteyen uzman olmayanlara da yöneliktir. Her ülkede olduğu gibi, tek partili sistemden çok partili sistem uygulamasına geçiş kolay değildi. 1950 genel seçimlerindeki ezici zaferlerine rağmen, Demokrat Parti liderleri, üst düzey bürokratların ve subaylarının birçoğunun muhalefetteki Cumhuriyet Halk Partisi (CHP) ile olan tarihi bağlılıklarını koruyacağına dair haklı bir şüphe uyandırdı. Bu, rakiplerinin güçlerini ve etkilerini azaltmak için aldıkları güçlü önlemleri, özellikle de CHP’nin yıkıcı faaliyetlerde bulunduğunu iddia ettiği soruşturmaları araştırmak üzere bir komite kurma önerilerini açıklamak için çok şey ifade etmektedir, 1960’taki demokrasi karşıtı darbenin ardında.

1950’den önce siyaset, bürokrasideki küçük bir elit ve hatta neredeyse tümü birbirleriyle tanışan daha az sayıda girişimciyi ve iş adamını korumaktı. Bununla birlikte, 1950’deki ilk açık seçimlerden sonra, Türkiye’nin politikacıları geniş bir ulusal seçmene cevap vermeye ve kaynakların dağılımını en üst düzeye çıkarmanın yollarını bulmaya zorlandılar. Bu fenomeni analiz etme girişimleri, Demokratların, özgür girişim anlayışı için genellikle retorik desteğine abartılı bir önem vermektedir. Bununla birlikte, aslında liberal ekonomik politikalar izlemeye çalıştıkları dönem nispeten kısaydı ve 1954 gibi erken bir tarihte, bürokratik kontrolün ekonomik aktivitenin önemli bir kısmı üzerinde güçlendirilmesini içeren daha açık bir şekilde devletçi önlemlere geri dönüyorlardı.

1960 askeri darbesi gittikçe daha otoriter bir Demokrat Parti hükümetini iktidardan indirmeyi açıkça hedefliyordu. Bununla birlikte, bunun ötesinde, askeri komplocular arasında çok az tutarlı bir amaç birliği vardı, ancak etkili entelektüel gruplar kendi reform programlarını tanıtmak için durumdan yararlandılar. Bunlardan bir tanesi, ucuz devlet kredisi ve döviz kredisi tahsis etme yetkisine sahip, yeni bir devlet planlama teşkilatında daha önce meydana gelen ekonomik müdahaleleri merkezileştirme çabasıydı. Bu tür önlemler hem idari gücün artmasına, hem de daha acil talepleri olan çıkar gruplarının çoğalmasına neden oldu. Ayrıca, yurtdışında sanayileşme, kentleşme ve işgücü göçünde bir artış ile hızlı ekonomik ve sosyal değişim sürecinin yoğunlaştırılmasına yardımcı oldular. Sonuçta yeni sınıflar, çıkar grupları ve hükümet arasında yeni ilişkiler ve ulusal düzeyde yeni bir siyasi ve seçim coğrafyası yaratıldı.

Anahtar Kelimeler: Türkiye, Türk Ekonomisi, Demokrat Parti, Adalet Partisi.

1. Introduction

Between 1950 and 1989, Turkey experienced rapid social, economic, and political change, the driving force behind which was the rate of economic growth, averaging around 6% a year. Given that population growth was at nearly 3% a year, economic growth represented an increase in per capita income Turkey's fortunes during these years. The questions that arose were: where did the growth come from? and where did the benefits go?¹

1950 was one of the most important years in the development of modern Turkey, having witnessed the first really free elections held since Atatürk's period, a departure from the one-party system, and the fall from power of the People's Republican Party (PRP) after 27 years. The effect of these changes on the economic, social and political structure of Turkey was not surprisingly deep. The Democrat Party (DP), which came into power on 14 May 1950, gave more emphasis to economic affairs such as agriculture, industrialisation and the privatisation of state-owned industries.²

Given the pre-election statements and promises of the DP, it was expected that 1950 would produce some significant changes in the Turkish economy. The DP government had campaigned the elections with a policy of liberating industry from the state, and it seemed very likely that when they came into office, they would be eager to practice what they had preached. However, at the end of the year, the state of the Turkish economy was no different from what it might have been had the PRP won the elections. Although members of the government did say that a great body of legislation was being prepared which would bring about many changes in agriculture and in industry, would open many of the State monopolies up to private enterprise, would change the administrative structure of the country's communications system and introduce many fiscal reforms, by the end of 1950 all of these had

¹ M. E. Yapp, *The Near East since the First World War: A History to 1995*, Second Edition, London: Longman, 1996, p. 309.

² FO371/95267/RK1011/1, Turkey: Annual Review for 1950, 13 January 1951.

remained only as promises, and it seemed that the government were reconsidering a number of these questions.³

Noel Charles, the British Ambassador to Ankara, outlined three main trends that arose in the Turkish economy during 1950. First, was the loosening of restrictions on external commerce after a measure of liberalisation of exports and imports and the freeing of trade with Western Europe from the limitations of currency availabilities. He viewed this as a “welcome development” but pointed out that it was in only its first stages, and that its continued progress would depend largely upon Turkey’s power to keep up with the fellow members of the OEEC. The second was the emergence of a new attitude towards industry. The role that private enterprise could play in increasing the national wealth was beginning to become more appreciated all round, though as Noel Charles pointed out, little of real value in a practical sense was achieved in this direction during 1950. In fact, liberalisation of imports threatened to affect the high-cost production of local industry. The third feature was the increasing proportion of local effort and foreign aid spent on Turkey’s basic industries, agriculture, mining, power and communications. If these fields were developed, he commented, it would increase Turkey’s ability to earn foreign exchange, reduce internal costs and prevent resources and energy from being used in competition with the more efficient industries of Western Europe.⁴

1951 saw a considerable advance aided by good crops and satisfactory markets for most Turkish products. The cotton crop, which had become Turkey’s main earner of foreign exchange, was larger than ever, the bumper cereal harvest also provided significant exports. This was largely due to climatic conditions, but as Noel Charles stated “it was clear that the high rate of investment in all branches of agriculture, which has been maintained over recent years, was beginning to pay dividends”.⁵

³ FO371/95267/RK1011/1, Turkey: Annual Review for 1950, 13 January 1951. Korkut Boratav, *Türkiye İktisat Tarihi, 1908-2009*, Ankara: İmge Kitabevi, 2012, p. 93-107.

⁴ FO371/95267/RK1011/1, Turkey: Annual Review for 1950, 13 January 1951. Nazif Ekzen, *Türkiye Kısa İktisat Tarihi*, Ankara: ODTÜ Yayıncılık, 2016, p. 17-54.

⁵ FO371/101848/WK1011/1, Turkey: Annual Report for 1951, 2 January 1952.

1952 was a successful year. Although not particularly well balanced, the economy was booming and production showed an overall increase. Agricultural production increasingly continued to show the results of the heavy investment programme of the previous three years. Cotton, which had displaced tobacco and dried fruits as Turkey's chief export crop in 1951, gave its place to cereals. Approximately 1,500,000 tons of grain, including over 1,000,000 tons of wheat, became available for export. Other important crops such as tobacco, raisins, oil seeds, nuts, pulses and olives also did well. Although favourable weather was certainly accountable for these results, much of the increase in production was due to mechanisation and better techniques.⁶

1953 was another successful year for Turkey. The two developments that became particularly apparent in the last part of the year were the deterioration of the Turkish financial position, and the development of authoritarian tendencies by the government. The Democrat Government had continued its policy of economic development and liberalisation at home and close co-operation with the Western powers abroad under the leadership of its Prime Minister, Adnan Menderes.⁷

The year was a prosperous one, with another record harvest and the increasing returns from the capital investments of recent years. Knox Helm, the British Ambassador to Ankara, thought that the peasants, who still constituted a major part of the Turkish population, must have been particularly content with a government that had helped them to increase their production and had bought their crops at high prices. In general, Turkey's economic development continued rapidly; American aid usefully contributed to the further expansion of the country's agricultural production and the development schemes, especially in the area of transport.⁸ However, there was another less satisfactory side of the economic picture. Namely, Turkey still had an apparent uncontrollable balance of payments deficit that necessitated a

⁶ FO371/107547/WK1011/1, Annual Report on Turkey for 1952, 9 January 1953. See George Lenczowski, *The Middle East in World Affairs*, 4th Edition, New York: Cornell University Press, 1990, p. 147-149.

⁷ FO371/112921/WK1011/1, Annual Report on Turkey for 1953, 1 January 1954.

⁸ FO371/112921/WK1011/1, Annual Report on Turkey for 1953, 1 January 1954.

substantial reduction in imports, and the abandonment of the measures of trade liberalisation that it had been trying to maintain since 1951.⁹

The events of 1954 followed a similar pattern to those of the previous two or three years. The Democrat Government was re-elected in May with an overwhelming majority, but relations with the Opposition remained strained, and the new government did little to correct the country's economic difficulties. Bowker, the British Ambassador to Ankara, commented that, when Menderes formed his new government, it would have been reasonable to hope that he would use to his advantage the substantial vote of confidence which he and his party had been given, "either to adopt the firm measures required to arrest the progressive deterioration of Turkey's external economic position and growing internal inflation or to show greater magnanimity towards his political opponents".¹⁰

The country's economic difficulties did not decrease in 1954; on the contrary, they continued to build up. Bowker noted that since 1950 the Government's economic measures had been popular because they were generous to the voters. However, they ran into trouble when they tried to do something necessary but unpopular. He believed that if the Government really wanted to improve the country's economy, Menderes would need all the support he could muster from his own party as well as a reasonably friendly Opposition.¹¹

1955 was both eventful and difficult for Turkey. The internal political and economic situation deteriorated further. It was undeniable that Turkey was suffering from serious inflation that was partly due to "an ambitious post-war programme of capital investment and partly to a heavy weight of expenditure which geography and her alliances combine to impose on Turkey".¹²

⁹ FO371/112921/WK1011/1, Annual Report on Turkey for 1953, 1 January 1954. Oktay Yenal, *Cumhuriyet'in İktisat Tarihi*, İstanbul: İş Bankası Kültür Yayınları, 2018, p. 112-126.

¹⁰ FO371/117717/RK1016/2, Bowker to Eden, 28 February 1955. FCO9/RK1011/1, Turkey: Annual Review for 1954, 7 January 1955.

¹¹ FO371/117717/RK1016/2, Bowker to Eden, 28 February 1955. FCO9/RK1011/1, Turkey: Annual Review for 1954, 7 January 1955.

¹² FO371/117717/RK1016/8, Bowker to Macmillan, 19 July 1955.

Menderes was not willing to begin serious discussions with the United States about a remedial economic programme. Talks about the aid programme for 1955-56, in which the Americans were suggesting deflation, began officially on 30 August 1955, but they did not go beyond routine questions of administration. Menderes clearly wanted to secure additional aid without making any vital concessions, as he was reluctant to change the course of his economic policy despite the seeming need for hard necessity. Michael Stewart's comments on Menderes's approach are worth noting at this point:

“Indeed, in a strange way, Menderes's public justification of his economic policy may have been sincere. He genuinely believes that the salvation of his country lies in intense industrial and economic development, cost what it may, which would bring Turkey up to the level of the countries of Western Europe. He believed also that it was in the interests of Turkey's friends and allies to help her to achieve this; not only would all their debts be repaid in due course but they themselves would gain a powerful friend and ally into the bargain”.¹³

The year ended with a feeling of “uncertainty and anxiety”. The government crisis in November and the events preceding it, in addition to the gradually increasing effects of the government's irresponsible economic policy on the public, had caused the Prime Minister to lose much of his authority and esteem as the leader of the Party with an overwhelming majority in Parliament, and as the initiator of an impressive policy of development.¹⁴ Neither the composition of the new government nor the statement of policy by the Prime Minister were sufficient to be convincing of the government's ability to restore the Turkish economy. Bowker believed that there was little prospect of the new Turkish government solving Turkey's economic problems and that the personal position of Menderes had been so shaken that Turkey would possibly be faced with a major political as well as economic crisis.¹⁵

¹³ FO371/117717/RK1016/17, Michael Stewart to Harold Macmillan, 6 September 1955.

¹⁴ FO371/123999/RK1011/1, Annual Review for 1955, 16 January 1956.

¹⁵ FO371/117717/RK1016/45, Minute by W. B. M. Johnston, 13 January 1956. Boratav, *Türkiye İktisat Tarihi*, p. 93-145.

1956 saw little change in internal and economic affairs. The government's plans for the social and economic development of the country went ahead and many of them came to fruition within the year. As a result, there was series of ceremonial openings of barrages, sugar factories and other industrial undertakings, which also gave the Prime Minister an opportunity to draw attention to the achievements of the Democrat Party Government, and to belittle the achievements of 25 years of People's Republican Party rule.¹⁶ However, the economic situation at the end of 1956 was confusing. Although the trade deficit had been reduced, mainly by lower imports, there was little real improvement compared with the previous year.

The economic situation during 1956 was characterised by a steady trend towards modernisation, combined with the "facile and characteristically Turkish feeling" that by 1960 a new era of prosperity would dawn as these investments came to fruition. Although much rapid progress was made, the weaknesses in the Turkish economy and the "peculiarities and limitations of Turkish mentality" continued to dampen hopes for such promising outcomes. Little attention was paid to such realities as the fact that growing industrialisation was creating new demands that required increased imports of raw materials and equipment, that more and better roads were creating the need for more vehicles, and that even if there was a significant amount of oil, its effective exploitation would require huge amounts of money. Thus, at the end of 1956, the best that Turkey could realistically hope for in the next few years was to be able to pay its way without adding to the accumulated foreign debt, and to keep inflationary forces under control to some extent. These objectives called for greater discipline in planning and expenditure than previously.¹⁷

1957 was a troubled year for Turkey. Economically, capital development continued as extravagantly as ever, resulting in further inflation and shortage of consumer goods and foreign exchange. The

¹⁶ FO371/130174/RK1011/1, Turkey: Annual Review for 1956, 5 February 1957. Baskın Oran (ed.), *Türk Dış Politikası, Cilt-I: 1919-1980*, İstanbul: İletişim Yayınları, 2003, p. 486-491.

¹⁷ FO371/130174/RK1011/1, Turkey: Annual Review for 1956, 5 February 1957. Ekzen, *Türkiye Kısa İktisat Tarihi*, p. 17-54.

economy was showing more signs of the strain caused by Menderes's "reckless" policy of industrialization and expansion.¹⁸ The country's balance of payments continued to deteriorate during 1957. Activity continued on building new power stations, communication facilities and industrial installations, but this was outbalanced by further foreign debts, growing inflation, and increasing shortages of imported goods. Had it not been for American economic aid, which totalled \$80 million, and some \$70 million worth of United States surplus agricultural commodities, the situation would have been even worse.¹⁹

Nevertheless, the key words of the government's pronouncement on the economic situation at the end of 1957 were still "expansion" and "development". Most Turks continued to point to what they thought of as the impressive catalogue of achievements since 1950, which they saw as the "awakening of Turkey after one hundred years' sleep", and they still considered inflation to be equated with expansion. On the positive side, it had to be admitted that these achievements included new highways, port installations, power stations, cement and sugar factories, increased coal, and iron and steel production, engineering chemicals, textiles, paper and other industries, most of which would be in production within the next few years. Meanwhile, Istanbul, Ankara and other cities were being extensively and expensively reconstructed, with huge demolitions, a process which became known as "Menderazing" due to the personal interest taken in it by the Prime Minister.²⁰

However, Bowker regarded the economic outlook at the end of year as discouraging. Most agricultural yields in 1957 were poor, so export prospects were the worst in recent years, considering that agricultural products comprised over 85% of Turkish exports. Although used to almost continual financial crisis, at the end of the year Turkey faced a crisis which temporary measures could no longer relieve.²¹

¹⁸ FO371/136450/RK1011/1, Annual Report on Turkey for 1957, 4 February 1958.

¹⁹ FO371/136450/RK1011/1, Annual Report on Turkey for 1957, 4 February 1958.

²⁰ FO371/136450/RK1011/1, Annual Report on Turkey for 1957, 4 February 1958. Boratav, *Türkiye İktisat Tarihi*, p. 93-145.

²¹ FO371/136450/RK1011/1, Annual Report on Turkey for 1957, 4 February 1958.

1958 was a year of decision, importance and dramatic developments for Turkey's internal, external and economic affairs. For Prime Minister Menderes, it was his most difficult year since he came to office in 1950. By mid-summer, Turkey's finances had reached such a low that the United States and Turkey's principal partners in OEEC deemed a major rescue operation necessary. The Prime Minister Menderes and the Democrat Party, who finished 1957 with a comfortable majority in the general elections held two months previously, found themselves at the end of 1958 with their position in Parliament and the country badly shaken, with the cost of living rising, and the possibility that they would have to call another general election long before the statutory term had come to a close. For reasons beyond his control and because of his own mistakes, 1958 was not a good year for Menderes. As it ended, of the many problems which confronted him, there only appeared some promise on the issue of Cyprus.²²

1959 was better than the previous year, but "hardly less interesting". Economically, Turkey was at a very interesting phase. The government had realised for some years that they needed to spend a large effort of development in the real interests of the country as well as in that of party politics. They pursued this goal by means which appeared "financially questionable", but which brought some success and popularity. There was reason to think that they proceeded deliberately without a plan, partly because they believed that they could get more help from abroad by individual and competitive approaches to various foreign sources of capital, and partly because they realised from the beginning that it was necessary to give their development work sufficient political content.²³

2. 1960

1960 began with a high level of inter-party tension and with an election expected either at some time in 1960 or early in 1961. Many external observers believed that an election was likely to result in a further Democrat victory. However, the government seemed to have

²² FO371/144739/RK1011/1, Annual Report on Turkey for 1958, 17 February 1959. Ekzen, *Türkiye Kısa İktisat Tarihi*, p. 17-54.

²³ FO371/153030/RK1011/1, Annual Political Review for Turkey 1959, 26 January 1960.

come to the conclusion sometime early in the year that they could not take the risk of an early election, either because they might lose or “because an election would give rise to disorders which the army would be unwilling to suppress for the benefit of the Democrat Party”.²⁴ They were determined not to take the risk of losing because of Menderes’ almost religious belief that he was destined to rebuild Turkey, and because more recently he and other leaders of the party began to think that some of their activities would not bear well under the scrutiny of an unfriendly administration. They also became more and more agitated by the criticism and propaganda of the opposition and were soon drawn into “a vicious circle of repression”.²⁵

The truth was that they were extremely anxious at the thought of losing their power and “hastened that event by the unwise measures which they took to prevent it”. Some of them believed that if the new rules did not provide a suitable means of securing victory for their group, then the rules must be changed; and this is what the government set out to do by using their majority vote in the Assembly to set up a parliamentary commission which was staffed entirely by members of the Democrat Party to investigate the political activities of the opposition. This commission was granted almost unlimited powers over the political life of the country and the immediate use of these powers to forbid all political activity, including the reporting in the press of parliamentary debates with regard to the commission’s activities.²⁶

This proved to be the final straw. According to Burrows, it was one of the government’s “more extraordinary misjudgements” to believe that they could impose this kind of political standstill by political means only, that is, without the use of military force which most other dictatorships found necessary. With the benefit of hindsight, it seemed that they could never properly have analysed the power situation in the country. In Burrows’ words, “the revolution occurred because the Army finally realized that passive resistance to the government’s orders to repress demonstrations was not enough to solve the crisis in which

²⁴ FO371/160212/RK1011/1, Annual Report on Turkey for 1960, 6 January 1961.

²⁵ FO371/160212/RK1011/1, Annual Report on Turkey for 1960, 6 January 1961.

²⁶ FO371/160212/RK1011/1, Annual Report on Turkey for 1960, 6 January 1961.

Turkey found herself and that they must instead take positive action to change the situation".²⁷

Menderes was heard to mention on more than one occasion "how much easier it was for a totalitarian system like Russia to carry out measures of economic development in a short time", and it might have been possible to regard his agreement to exchange visits with Khrushchev not only as a wise withdrawal from Turkey's previously extreme anti-Russian position, but also as a hopeful distraction from the internal crisis.²⁸

In Burrows' opinion, the fall of the Democrat Party was the more tragic because it "represented one of the few attempts which have been made to establish contact between the 'two nations' into which Turkey was divided: the educated and the illiterate, the city dwellers and the peasants." Previous to 1946, almost all-political activity had taken place among the elite. With the establishment of the two-party system in 1946, for the first time it had become worth the while of politicians to interest themselves in the rural masses, because, however uneducated they might have been, each man and woman had the right to vote. Before it came to power, the Democrat Party was, like almost all opposition movements in Turkey, largely composed of intellectuals. It finally came to rely entirely on the support of the masses, having lost that of the intellectuals, whose importance it under-estimated.²⁹

The economic consequences of the Revolution were on the whole very good regarding government financing, but although unintentionally, they led to a certain amount of commercial stagnation. Statements by Ministers and other leading figures for the first time presented to the Turkish people the serious economic situation in which they had found themselves and the "extravagance and incoherence" with which financial affairs had previously been directed. Much emphasis was given to budgetary economy and a Planning Organisation had been set up, with foreign advisers, to delineate economic development and investment. Missions from the OEEC and

²⁷ FO371/160212/RK1011/1, Annual Report on Turkey for 1960, 6 January 1961.

²⁸ FO371/160212/RK1011/1, Annual Report on Turkey for 1960, 6 January 1961.

²⁹ FO371/160212/RK1011/1, Annual Report on Turkey for 1960, 6 January 1961.

International Monetary Fund visited Turkey during the year and senior representatives of these organisations paid a joint visit in November, resulting in recommendations to their members that further aid should be given to Turkey for the year 1961 in order to meet the \$90,000,000 deficit in the balance of payments. These proposals were approved just before the end of the year. A Turkish memorandum accompanying these recommendations appeared to show a determination to sort out the Turkish Government's financial structure and, in particular, to bring under control for the first time the financing of the state economic enterprises, which had previously been one of the "loosest and most disorderly elements in the picture". Burrows stated that it was refreshing that both the Turkish Government and the international organisations for the first time did not suggest that, given this aid, the Turkish economy could look after itself in the future. In fact, it was openly accepted that a balance of payments deficit was likely to continue for years to come, and that there was no short cut to reaching a level of development sufficient to meet Turkey's ever-growing internal consumption, as well as an adequate level of exports. The facts were less than comforting, but as Burrows concluded "it is much better to have them out in the open where not only the Turks but their friends in the West can see much more clearly what lies ahead."³⁰

Apart from resolving the political questions inherited from the Democrat Party era, the 27 May regime gave priority to finding solutions for the bankrupt economic legacy of the Democrat years. The most important decision in this regard was the creation of the State Planning Organisation (SPO), whose principal function was to supervise the workings of the economy in the rational manner within the context of a plan. Although the political and economic consequences of the 1960 coup had been very good overall as far as government financing was concerned, they did unintentionally lead to some commercial stagnation. Statements by Ministers and other leading figures for the first time laid before the Turkish people the serious economic situation in which they had found themselves, and the extravagance and incoherence with which financial affairs had previously been directed. Much emphasis was laid on budgetary economy and a Planning

³⁰ FO371/160212/RK1011/1, Annual Report on Turkey for 1960, 6 January 1961.

Organisation was set up, with foreign advisers, to lay down the broad lines of economic development and investment.³¹

Missions from the Organisation for European Economic Cooperation (OEEC) and International Monetary Fund (IMF) visited Turkey during the year and senior representatives of these organisations paid a joint visit in November 1960, which resulted in recommendations to their members to the effect that further aid should be given to Turkey for the year 1961 in order to meet the deficit in the balance of payments of the order of \$90,000,000.³²

These proposals were approved just before the end of the year. A Turkish memorandum accompanying these recommendations seemed to show a welcome determination to tidy up the Turkish Government's financial structure and, in particular, to bring under proper control for the first time the financing of the state economic enterprises, which had previously been one the loosest and most disorderly elements in the picture.³³

It was refreshing also that both the Turkish Government and the international organisations refrained for the first time from suggesting that, given this further assistance, the Turkish economy could in future look after itself. On the contrary, the facts were clearly faced that a balance of payments deficit was likely to continue for some years and that there was no simple short cut to the attaining of development sufficient to meet Turkey's ever growing internal consumption, plus an adequate level of exports.³⁴

The facts were uncomfortable and the problem was likely to appear even bigger and more intractable when the Planning Organisation revealed its forecast of requirements for the years 1963-1968. However, it was the British opinion that it was much better to have

³¹ FO371/160212/RK1011/1, Annual Report on Turkey for 1960. See Feroz Ahmad, *The Making of Modern Turkey*, London: Routledge, 1993, p. 121-147.

³² FO371/160212/RK1011/1, Annual Report on Turkey for 1960.

³³ FO371/160212/RK1011/1, Annual Report on Turkey for 1960.

³⁴ FO371/160212/RK1011/1, Annual Report on Turkey for 1960.

them out in the open where not only the Turks but their friends in the West could see much more clearly what lay ahead.³⁵

3. 1961

Economically, although there was not much change during this year, important new steps were prepared. The State Planning Organisation, established by the revolutionary Coalition Government, was producing plans for 1962 and for 1963-68. Its existence and objectives were accepted almost unconditionally by the government, indeed it seemed to smoothed over the differences between the PRP and the JP, the former who was regarded as statist, and the latter as favourable to private enterprise. It was in fact accepted as a basic feature both of the Plan and of Government economic policy that Turkey should be a mixed economy. The Five-year plan revealed heavy requirements of foreign long-term aid, which needed to be granted at an adequate rate in order to promote internal stability and to avoid any tendency to neutralism.³⁶

Although there were probably disputes as to the precise limits of the public and private sectors, but nothing to suggest this became obvious during the year. It was expected that the Plan would indicate the necessity of continued austerity on the home front in order to create the necessary internal savings. It would also have a significant impact on Turkey's financial relations with the outside world. It was long known that Turkey was a very under-developed country in many aspects, despite the superficial appearance of westernisation in the main towns. However, it had previously been impossible to discover exactly what was required to address this issue. The Bill for long-term foreign aid would inevitably be a big one, but the existence of the Planning Organisation was expected to give a much better chance if the items in it were correctly entered and if the money were found. After these calculations, the Western world would, for the first time, be clearly faced with the question as to whether or not they could and would

³⁵ FO371/160212/RK1011/1, Annual Report on Turkey for 1960.

³⁶ FO371/163832/CT1011/1, Annual Report on Turkey for 1961.

provide the external means with which Turkey could achieve its take-off.³⁷

In the event that Turkey was not given Western aid, Burrows, the British Ambassador to Turkey, believed that the country would begin to look elsewhere to close the gap between its economic situation and those of its western neighbours. He continued to state that “the Turks are basically a simple and loyal people. Aid from the West makes it natural and easy for them to be in military and political partnership with us. Massive aid from Russia, though instinctively less welcome, would lead them at an increasing pace down the slippery slope of neutrality”.³⁸

There was a close inter-relation between the political future and the economic prospect. Lending Governments and, even more, private foreign investors would want to be reasonably sure of Turkey’s political stability before they put up their money. However, it could equally be argued that unless a reasonable level of economic activity and improvement of living standards could be shown to the Turkish people to be an attainable goal, political stability was unlikely to be achieved for more than a short time.³⁹

Even from the purely commercial point of view, the stake for the United Kingdom was not negligible. In the first eleven months of 1961 the United Kingdom exports to Turkey increased by 40% over the previous year, which, even allowing for certain special and non-recurring factors such as the import of refinery equipment, ranked high in any table of export growth. It also tipped the balance of UK - Turkish trade considerably in favour of the former.⁴⁰

4. 1962

In 1962, having given the new Government a vote of confidence by a majority of 127 in the lower House, the Assembly went into recess for two months, during which time Government was chiefly occupied with

³⁷ FO371/163832/CT1011/1, Annual Report on Turkey for 1961. See Haluk Gerger, *Türk Dış Politikası'nın Ekonomi Politikası, Soğuk Savaştan Yeni Dünya Düzenine*, İstanbul: Belge Yayınları, 1998.

³⁸ FO371/163832/CT1011/1, Annual Report on Turkey for 1961.

³⁹ FO371/163832/CT1011/1, Annual Report on Turkey for 1961.

⁴⁰ FO371/163832/CT1011/1, Annual Report on Turkey for 1961.

economic affairs. The announcement in July that the Ministerial Council of the Common Market had agreed to offer Turkey association with the Six in the form of a customs union and, in the same month, the formation of the OECD consortium to provide financial aid to Turkey appeared to be welcome successes for the new government, although the value of association with the Six on the terms offered was later questioned.⁴¹

There was little evidence that ministers were active during this period in preparing basic legislation to achieve the reform of land, taxation or labour relations. The time was, however, utilised to discuss the recommendations of the State Planning Office, which in July presented the Government with a draft of the first Five Year Plan for the period of 1963-67. Discussions in the Cabinet and the Planning Council revealed major disagreement between the followers of Feyzioğlu and those of Alican over the internal financing of the Plan. The dispute finally resolved, largely in Alican's favour. This meant that it could be impossible to obtain the revenue necessary for supporting the ambitious target of a seven per cent annual rate of growth in the national income during the Plan period. The planners' proposals for a thorough overhaul of the taxation system were dropped, and although agricultural incomes were to be taxed on a limited scale, the system suggested to the planners by Doctor Kaldor, by which agriculture was to be taxed both in order to increase revenue and to encourage land reform, was rejected. The dispute over the Five-Year Plan, although resolved in the Cabinet, erupted once more with the resignation in September of the Under-Secretary and three heads of departments from the State Planning Office. The resignations were, illogically enough, exploited by the Justice Party which started to harass the Government both in the Assembly and in the country.⁴²

5. 1963

⁴¹ FO371/169514/CT1011/1, Annual Review of Turkey for 1962. See Yahya S. Tezel, *Cumhuriyet Döneminin İktisadi Tarihi*, İstanbul: İş Bankası Kültür Yayınları, 2015.

⁴² FO371/169514/CT1011/1, Annual Review of Turkey for 1962. See Şevket Pamuk, *Türkiye'nin 200 Yıllık İktisadi Tarihi*, İstanbul: Türkiye İş Bankası Kültür Yayınları, 2018, p. 235-246.

Meanwhile, Turkey's planned economy was set into motion in 1963 with the goal of rapid industrialisation based on the model of import substitution. However, even before it was launched, the First Five Year Plan (1963-1967) had been heavily criticised by its opponents in the Assembly. On the economic side the first year's programme of the Five-year Development Plan got off to a slow start, partly due to domestic political and administrative difficulties, but partly also to the long delay in reaching agreement with the members of the OECD Consortium on terms and amounts of the foreign aid for the 1963 programme. Agreement was reached only in July on a total amount of US252.7 million, by which time the Central Bank's exchange reserves were already down to US38 million. Negotiations with some individual members, notably France, had still not been concluded by the end of the year. The reserves were then almost exhausted.⁴³

This was partly the consequence of an increasingly negative balance of trade. Largely as a result of a 47% increase in machinery imports for the development programme, Turkey's total imports had risen during the first nine months of 1963 by 13.2%. Exports on the other hand rose by only 2%: cotton and cereals increased but tobacco, livestock and minerals dropped. The steep falls in Turkish chrome exports, partly because of increased purchases by the United States and some Western European countries of cheaper Soviet chrome, caused the Turkish authorities particular concern and was the subject of long discussions in both NATO and CENTO.⁴⁴

Despite the difficulties on the foreign front, despite failure to grapple with tax reform at home and despite failure to reach the planned investment targets, enough progress was made, without inflation, to justify an OECD recommendation for the continuance of foreign aid in 1964 on about the same scale as in the previous year. Domestically, much had been learned administratively about the techniques of planning, while politically, despite differences of emphasis, the need for planned development had become such a generally accepted common doctrine as to leave reasonable ground for hope that even a change of

⁴³ FO371/174971/CT1011/1, Annual Review for Turkey for 1963.

⁴⁴ FO371/174971/CT1011/1, Annual Review for Turkey for 1963.

Government would not cause a reversal of its progress that was too radical.⁴⁵

6. 1964

The economy was very stagnant in the first half of the year, and although remedial measures taken by the Government contributed towards some recovery, exports and investments failed to reach the planners' targets. With only an average cereals harvest, the growth rate for the year was expected to be about 4% instead of the 7% foreseen in the plan. However, prices remained fairly stable and inflation was avoided. The trade unions strengthened and used with moderation and responsibility the new rights and benefits they had obtained. On the foreign exchange front, the authorities continued to live just within their means, and by the end of the year, the reserves were again near vanishing point.⁴⁶

The OECD Consortium failed to live up to expectations. It made little progress towards standardisation of terms and conditions of foreign aid and only approached collecting the total sum required for 1964 with the end of the year in sight. By that time the Turkish Government were beginning to show some signs of grappling more energetically with export promotion. However, these efforts were overshadowed by the problem of Turkey's foreign debt, service on which in the peak year of 1965 would absorb well over half the foreseeable earnings from exports.⁴⁷

The close dependence of Turkey's economy on the countries of the North Atlantic Alliance was emphasised by the conclusion of the long negotiations for its association with the European Economic Community, which was hailed in Turkey as essentially a political act of identification with the West. However, the very closeness of that dependence, especially upon the United States, and the realisation that it hampered Turkey's freedom of action over Cyprus stimulated its desire to follow a more independent policy and to broaden its contacts: specifically, with its CENTO neighbours in the new Regional Co-

⁴⁵ FO371/174971/CT1011/1, Annual Review for Turkey for 1963.

⁴⁶ FO371/180150/CT1011/1, Annual Political Report for Turkey, 1964.

⁴⁷ FO371/180150/CT1011/1, Annual Political Report for Turkey, 1964.

operation for Development (RCD), with Spain, with the uncommitted world in general, with the Communist countries of South-East Europe, and finally with the Soviet Union. In practice, these tentative initiatives produced little solid result and Erkin's visit to Moscow, the first by a Turkish Foreign Minister for 25 years, led only to promises of slightly increased trade and cultural exchanges. Nevertheless, the visit gave a new and unaccustomed air of respectability to Communist Russia. Coupled with the bitter feelings towards the West engendered by Cyprus, this development gave impetus to Left-wing ideas and had the potential to have a profound effect upon the outlook of the younger generation that had grown up since Atatürk and was predisposed to search for new and radical solutions to the perennial problems posed by Turkey's poverty and vulnerability.⁴⁸

7. 1965

1965 was a year of change but not instability in Turkey. Rather, it was one of orderly transition. Economically Turkey made steady progress. It secured the aid it needed from the OECD Consortium. Although not all of this was yet on ideally favourable terms, it was greatly helped by securing part of it in the form of an agreement for the refinancing, for 1965 and succeeding years, of service on old debts which otherwise would have placed a heavy burden on its balance of payments. It also did well in increasing its exports, and thus substantially reducing its adverse balance of trade. Remittances also began to flow in from Turkish workers in Germany. In consequence the pressure on its inadequate reserves of foreign exchange became less acute.⁴⁹

Domestically, planned development, including impressive programmes of road building, school construction and health services, continued through the changes of Government as an accepted and permanent aspect of policy. Construction and industrial investment approached the planned level. However, the overall rate was 5%, as against the planned 7%. This was largely because of a short-fall in agriculture, where production seemed to have increased relatively little

⁴⁸ FO371/180150/CT1011/1, Annual Political Report for Turkey, 1964.

⁴⁹ FO371/185824/CT1011/1, Turkey: Annual Review for 1965. See M. E. Yapp, *The Near East since the First World War: A History to 1995*, Second Edition, London: Longman, 1996, p. 309-329.

over 1964. Despite pressure on prices, an increase in credit and a growth in the Budget deficit, inflation was avoided. However, on balance 1965 was a relatively good year for Turkey.⁵⁰

8. 1966

In economic affairs, the Prime Minister Demirel followed an expansionist policy which brought direct benefit to the country, but could lead to difficulties both over foreign exchange and internal financing. The government acted prudently, although Turkey still remained greatly dependent on foreign aid.⁵¹ The result of the Government's expansionist policy was a sharp rise in imports, exceeding the rise in exports and invisible earnings, and a sharp drop in Turkey's small foreign exchange reserves. Internally, Turkish Budgets habitually showed a deficit to be financed by borrowing; however, the estimated deficit for 1966 was much greater than it had been for 1965 (TL700 million against TL400 million).⁵²

The Prime Minister's attitude to economic planning was highly equivocal. He claimed to respect the principles of planning, but clearly distrusted the State Planning Organisation which he had inherited. Most of its senior officials were dismissed or resigned; yet the Prime Minister made no attempt to reshape the SPO to be more sympathetic to his own views. There was no lack of useful projects, but to many of these the Prime Minister was obliged to say no, unless, as in the 1950s, Turkey was to risk default abroad and run-away domestic inflation. So far, prudence end of October the Ankara retail price index had risen only 3.2 per cent over the year. The future remained precarious, because Turkey's progress towards European Economic standards was to depend for several years yet on massive aid given through the OECD Consortium (254 million for 1966 as against 305 million for 1965, more than half the value of exports at that time). Were the Consortium (and particularly the United States which is responsible for over half the aid given) not to maintain the present scale for the next six or seven years, Turkey would be obliged to reduce development expenditure, with

⁵⁰ FO371/185824, Turkey: Annual Review for 1965.

⁵¹ FO371/185824, Turkey: Annual Review for 1966.

⁵² FO371/185824, Turkey: Annual Review for 1966.

consequent political stresses. Nevertheless, the year 1966 was still a year of progress.⁵³

9. 1967

In 1967, economic progress was been satisfactory. Industrial expansion was continuing at the rate of 11-12%. Agriculture was improving more slowly. OECD Consortium aid was still keeping Turkey afloat. There was, however, a serious balance of payments crisis looming ahead. The deficit between exports and invisible receipts on the one hand and imports plus debt-repayment on the other was going to be even larger than planned. Either the Consortium would have to increase its aid, or the Turkish Government would have to take steps which would cause political difficulties. Roger Allen, British Ambassador to Turkey, suggested they make a review of the economic structure, reducing planned industrial growth well below the present target of 7% and importing foreign capital and know-how to develop agriculture and natural resources, together with tax reform, gradual abolition of some of the State enterprises as such, and control of the tourist revenue black market.⁵⁴

However, Roger Allen remarked that the government were more likely to reduce imports in a haphazard way, restrict foreign exchange and subsidise exports, which he foresaw would increase prices and industrial inefficiency. The new Five-year Plan, which had been drawn up in October, was an ambitious document arousing expectations which Roger Allen regarded the Turks will be reluctant to see unfulfilled. It provided for social as well as economic development. Little by little the demand for water, electricity, education, social services and so on was penetrating even into the depths of the Turkish countryside; the towns already voicing their demands. Any serious setback to material progress was likely to have repercussions in the political field.⁵⁵

10. 1968

The Turkish balance-of-payments situation continued to cause anxiety, and both imports and exports fell short. It seemed unlikely that

⁵³ FO371/185824, Turkey: Annual Review for 1966.

⁵⁴ FCO9/614, Turkey: Annual Review for 1967.

⁵⁵ FCO9/614, Turkey: Annual Review for 1967.

the Turkish Government would be able to meet their planned growth rate until they could expand exports, and meanwhile the Turkish need for aid remained great. It was clear that imports would not reach the planned figure for this year for lack of foreign exchange: the likely figure for the year was about \$730 million instead of \$835 million. Moreover, the Government would have to spend about \$17 million on the unexpected purchase of 300,000 tons of wheat, although they hoped that actual foreign exchange expenditure would amount to no more than \$9 million; the balance being paid in Turkish liras.⁵⁶

Turkish exports in the first nine months of 1968 also fell short by \$7.9 million and other sources of foreign exchange did not meet expectations. The OECD Consortium pledged \$308.5 million; in regard to tourism. However, income was likely to fall short of expenditure in foreign exchange, instead of balancing it as planned, in spite of the fact that receipts now included all the expenditure of Diplomatic Missions in Turkey and of 23,000 United States servicemen, all of whom were getting their Turkish liras at the tourist rate of TL12 to dollar 1; workers' remittances from abroad would be about \$100 million instead of the planned 140 million Mark. The result was a shortfall of foreign exchange which meant long waiting periods for those who needed to remit abroad the price of imports required to keep industry turning, and factories were consequently working short time.⁵⁷

With the restrictions on foreign, and especially American, aid both economic and military, it seemed unlikely that the Turkish Government would be able to meet the planned growth rate of 7% until they could expand exports, and this they were unlikely to be able to do unless they changed the emphasis from industry to natural resources. This would, of course, have been a comparatively long-term policy, and it was unlikely to be adopted before the 1969 general elections.⁵⁸

Meanwhile, Turkish needs in the fields of both programme and project aid, and technical assistance, remained great. Notably, British aid to Turkey was not reduced in 1968, and still remains the highest

⁵⁶ FCO9/1091, Turkey: Annual Review for 1968.

⁵⁷ FCO9/1091, Turkey: Annual Review for 1968. See Roger Owen, *State, Power & Politics in the making of the Modern Middle East*, London: Routledge, 1992.

⁵⁸ FCO9/1091, Turkey: Annual Review for 1968.

United Kingdom aid to any non-Commonwealth country. Despite the handicaps of quota restrictions and lack of foreign exchange, British exports to Turkey in the first nine months of 1968, compared with the same period of 1967, increased from \$67.4 million (12.9% of Turkey's imports) to \$78.8 million (13.7% of Turkey's imports). At the same time, the fact that trade with the "bilateral countries" (i.e., the Soviet bloc) also increased should not be overlooked. In 1962 Turkish imports from these countries amounted to \$4.4 million (6 % of total imports); last year these imports totalled 10 million Marks (13.2% of total imports). Similarly, with Turkish exports to these countries: in 1962 they totalled \$2.95 million (7% of total exports); the previous year they had reached \$9.7 million (16.7% of total exports). This trade was likely to step up as the foreign exchange shortage made barter deals increasingly attractive.⁵⁹

11. 1969

In 1969, the economy was still in serious difficulties, but real gross national product was expected to rise by 6.5%. Aid still came from various sources and was foreseen to be required for many more years. Given the pattern of exports and imports, Turkey's difficult negotiations with the EEC, even if the right economic objectives were pursued, it would still be a long process.⁶⁰

The Turkish economy continued to be troubled by the chronic shortage of foreign exchange, aggravated by very heavy debt-servicing obligations representing between 20 and 25% of Turkey's foreign exchange earnings. The Government's efforts to remedy the situation by severe import restrictions and export incentives were having some success by the end of the year: exports were expected to reach a level of \$540 million, some 9 per cent over 1968; while both workers' remittances from abroad and receipts from tourism reached record levels. However, despite the severe import restrictions, imports, at about \$790 million, were expected to be some \$30 million more than 1968; while a bad wheat crop for the second year running meant that

⁵⁹ FCO9/1091, Turkey: Annual Review for 1968. See Türkiye İstatistik Kurumu, *İstatistik Göstergeler, 1923-2010*, Ankara: Türkiye İstatistik Kurumu, 2011.

⁶⁰ FCO9/1308, Turkey: Annual Review for 1969.

the Government had to order 900,000 tons from abroad. In spite of these difficulties, real gross national product was expected to rise by over 6.5%, a figure achieved mainly by the growth in industrial production of 10%, with agriculture at only 2%.⁶¹

The external balance of the Turkish economy was kept afloat over the last seven years by aid from the Organisation for Economic Co-operation and Development (OECD) Turkey Consortium, which pledged \$249 million for 1969, \$39 million less than for 1968. Britain pledged \$15.6 million and contributed \$8.4 million towards the \$76 million needed for the construction of the Bosphorus Bridge and associated road works. The bid for the Bridge itself was won by an Anglo-German Consortium and work was hoped to start early in 1970. With the signature of a loan agreement with the USSR for Turkey's third steel plant, Soviet aid to Turkey reached \$365 million, most of which would be repaid in commodity exports over 15 years at 2.5% interest. Even with all this aid coming in from different sources, Turkey would still require further external financing for many years and the Government were budgeting for \$330 million of aid for 1970, which they were unlikely to get from the Consortium. Pressure from the International Monetary Fund (IMF) to devalue had so far been resisted, with the Turks hoping to put it off until after the agricultural export season and demanding a further input of at least \$200 million. The benefits of devaluation for Turkey were perhaps marginal, but there was no doubt that the present exchange rate was unrealistic: Turkey would find it hard to resist further pressure both from speculators and aid-givers to bring the rate into line with the purchasing power of the lira.⁶²

Britain maintained its place as the third exporter to Turkey at an annual rate of some £34 million, but Turkish exports to the United Kingdom were less than half. Turkey's trade deficit with Britain was in fact exceeded only by that with Western Germany, which remained at the top of the table for exports to Turkey followed by the United States. Trade with the EEC countries came to some 30% of the total; while exchanges with the Soviet bloc increased by 6% over 1968; imports from these countries, on a barter basis, accounted for at least 20% of Turkey's

⁶¹ FCO9/1308, Turkey: Annual Review for 1969.

⁶² FCO9/1308, Turkey: Annual Review for 1969.

1969 total, an increasing trend explained by Turkey's difficulty in paying for goods in hard currency, but which could lead to difficulties later when the Soviet Union and others demanded payment in commodities which were normally exported elsewhere in return for convertible currencies.⁶³

In the meantime, Turkey had been negotiating the move from the preparatory to the transitional stage of its association with the EEC: the talks reached deadlock early in December and were to be renewed in the New Year, with the Turks probably having to accept nearly all the EEC conditions, which would cost them more than they had been prepared to pay in tariff concessions on industrial goods and give them less than they had been expecting in aid from the European Investment Bank. There had been certain criticism from the press and Opposition politicians, but the Government appeared determined to go ahead with closer association. This was a courageous step which would expose many Turkish industries to severe competition in a relatively short time. Coupled with evidence that the Government were prepared to lower their development rate - which was costing them so much in foreign exchange - this decision gave some hope that the economic prospects for 1970/71 were not entirely bleak. In Burrows' opinion, the Government's aim needed to be and, according to Demirel, the Prime Minister, was to open the economy to the outside world; create a suitable climate in which exporting became profitable; redeploy resources to export-oriented lines; develop the country's mineral and forestry resources and its livestock, fruit and vegetable production, and exploit the tourist potential. To do this and, at the same time, to maintain growth with stability, they would need all the foreign financial and technical aid they could get. As a long-term investment, this had the potential to be worthwhile for all the donors; but it would take a long time.⁶⁴

12. 1970

1970 was an important year for the Turkish economy. Deterioration was halted by devaluation of the lira in August. The Government

⁶³ FCO9/1308, Turkey: Annual Review for 1969.

⁶⁴ FCO9/1308, Turkey: Annual Review for 1969.

introduced a package of other reforms and the first benefits began to appear at the end of the year, but there was still a long way to go. For the Turkish economy, 1970 was to prove a decisive year. With the devaluation of the lira on 10 August, from TL 21.60 = £1 to TL 36 = £1, the Government embarked on a far-reaching programme of reform which aimed to set the economy on the right path - provided the political situation, in parliament and outside, allowed its fulfilment.⁶⁵

The year had begun badly, with the defeat of the budget in February. The resulting political uncertainty and hiatus in the legislative programme made the unstable economic situation even more critical. The Government became more and more dependent on borrowing; speculation about devaluation worsened the already serious foreign exchange situation; and the continually lengthening waiting period for transfers of foreign exchange, reaching a peak of 56 weeks just before devaluation, led to disruption of supplies and stoppages in industrial production. As investors drew back and aid donors postponed their pledges, trade and industry seemed in danger of grinding to a halt. The seriousness of the situation and continuing pressure from the OECD Aid Consortium, and more particularly the IMF, convinced the Government that drastic steps were needed and a devaluation “package” was ready by early summer. In the difficult political situation, however, the first priority was to pass the budget through parliament. With this achieved at the end of May 1970, the Government secured the passage of two other important items of legislation - a series of tax measures and a bill bringing a long overdue increase in government servants’ salaries, both civil and military - before the parliamentary recess.⁶⁶

In spite of the months of rumour and speculation, the Government managed to catch most people by surprise with the devaluation announcement a week after the recess and to give the impression that this was a carefully considered initiative, rather than a forced response to speculation or foreign pressure. The first hazard to the strategy - a wave of price increases - was largely stemmed by energetic government action, including threats of the removal of tariff protection. With a \$90

⁶⁵ FCO9/1466, Turkey: Annual Review for 1970.

⁶⁶ FCO9/1466, Turkey: Annual Review for 1970. See Roger Owen, *State, Power & Politics in the making of the Modern Middle East*, London: Routledge, 1992.

million stand-by from the IMF, additional aid from the Americans, Germans and the European Monetary Agreement, and the release of some normal aid allocations postponed because of the uncertain situation, the Government was also able to secure sufficient foreign exchange to make a prompt start on clearing the build-up of currency transfers. Results for the year as a whole were likely to show a drop in the growth rate as a result of import bottlenecks in the first half and the poor performance of agriculture in a year of drought. By the end of the year, however, the first benefits of devaluation were appearing. Remittances from workers abroad reached record sums. Exports showed useful increases despite the virtual blockade imposed by Turkey's western neighbours during the cholera epidemic in Istanbul.⁶⁷

However, there was still a long way to go. The Government was committed to further measures to promote exports, to reform agricultural credit, eliminate deficit spending and reorganise the State Economic Enterprises which were a burden on the budget. It also faced the familiar problem of checking wage demands as prices, and taxes, continued to rise. The encouragement of foreign investment remained a sensitive question where liberality in theory could still become harassment in practice. Continuing foreign aid would certainly be necessary but influential donors, such as the World Bank and the Germans, were prepared to give substantial backing to the new policy - and relative newcomers, such as the Japanese, were showing interest. If progress was to be maintained, however, the Government needed to be in command of the situation in the country and able to get a substantial legislative programme through Parliament.⁶⁸

In bilateral relations Britain maintained its position satisfactorily. Despite the problems faced by Turkish importers for much of the year, Britain's exports were likely to be only slightly lower than in 1969 and still about twice the amount of Turkey's exports to the United Kingdom. British aid pledged through the OECD Consortium was slightly higher than in 1969 but less was allocated to usual maintenance imports and a 2% interest rate was introduced on loans in November. The 1970 project aid pledge formed the British contribution to the Bosphorus

⁶⁷ FCO9/1466, Turkey: Annual Review for 1970.

⁶⁸ FCO9/1466, Turkey: Annual Review for 1970.

Bridge project, on which an Anglo-German consortium had started work in February 1970. At the end of the year, negotiations were nearing conclusion on a loan for a large fertiliser project which was expected to make a valuable contribution to the priority area of agricultural development.⁶⁹

13. Conclusion

Despite the political consequences, the economic consequences of the coup of 1960 had overall been very good as far as government financing was concerned, but led unintentionally to some commercial stagnation. Although, economically, there was much change in Turkey's actual situation, but steps had been taken which had the potential to give it an entirely new image in the future. Apart from the political reconciliation which was initiated by the formation of a Coalition Government, the most important development resulting from the revolution was the establishment of the State Planning Organisation. More immediately there was a close inter-relation between the political future and the economic prospect. Lending Governments and, even more, private foreign investors would want to be reasonably sure of Turkey's political stability before they put up their money. However, it could equally be argued that unless a reasonable level of economic activity and improvement of living standards was shown to the Turkish people to be an attainable goal, political stability was unlikely to be achieved for more than a short time. Despite the difficulties on the foreign front, despite failure to grapple with tax reform at home and despite failure to reach the planned investment targets, sufficient progress was made, without inflation, to justify an OECD recommendation for the continuance of foreign aid in 1960s on about the same scale as that of the 1950s.

The economy was stagnant in the first half of the 1960s and although remedial measures taken by the Government contributed towards some recovery, exports and investments failed to reach the planners' targets. The close dependence of Turkey's economy on the countries of the North Atlantic Alliance was highlighted by the conclusion of the long negotiations for its association with the European Economic

⁶⁹ FCO9/1466, Turkey: Annual Review for 1970.

Community, which was hailed in Turkey as essentially a political act of identification with the West. However, it was the closeness of that dependence, especially upon the United States, and the realisation that it hampered Turkey's freedom of action over Cyprus stimulated its desire to pursue a more independent policy and to broaden its contacts. In practical terms, these tentative initiatives yielded little solid result. Coupled with the embittered feelings towards the West in the shape of Cyprus, this development gave impetus to Left-wing ideas. The result of the Government's expansionist policy was a sharp rise in imports, exceeding the rise in exports and invisible earnings, and a sharp drop in Turkey's small foreign exchange reserves. Therefore, the future remained uncertain, since Turkey's progress towards European Economic standards would depend for several years yet on massive aid given through the OECD. However, economically Turkey had made steady progress.

In the mid-1960s, although progress had been satisfactory, industrial expansion continued at the rate of 11-12% and agriculture improves more slowly, however there was a serious balance of payments crisis looming ahead. The government was expected to reduce imports haphazardly, restrict foreign exchange and subsidise exports, which would increase prices and industrial inefficiency. With the restrictions on foreign, and especially American, aid both economic and military, it seemed unlikely that the Turkish Government would be able to meet the planned growth rate until they could expand exports, which seemed unlikely without moving in a direction away from industry to natural resources. This would, of course, have to be a comparatively long-term policy.

However, in the late 1960s, the economy was still in serious difficulties, and even if the right economic objectives were being pursued, it would be a long-term process. The Turkish economy continued to be troubled by shortage of foreign exchange and debt-servicing obligations. The Government's efforts to remedy the situation by severe import restrictions and export incentives were having some success by the end of the year. In spite of these difficulties real gross national product was expected to rise. The external balance of the

Turkish economy had been kept afloat over the decade by aid from the OECD.

The Government's aim was to open the economy to the outside world, thus creating a climate for profitable export, developing the country's natural resources, and exploiting the potential for tourism. To do this and, at the same time, to maintain growth with stability, they would need all the foreign financial and technical aid they could get. The political uncertainty of the period made the already unstable economic situation even more critical. The Government became more and more dependent on borrowing; speculation about devaluation worsened the already serious foreign exchange situation. The Government was committed to further measures to promote exports, to reform agricultural credit, eliminate deficit spending and reorganise the State Economic Enterprises, which were hindering the budget.

Despite the lack of structural economic reform, the Turkish economy in the 1960s grew at the expected target rate set by the SPO. This constituted almost an industrial revolution and a take-off of a kind which few other Third World states had yet managed. The economic climate in the world economy was favourable. More importantly, Turkish workers in Europe began to send home large sums of foreign exchange which enabled the country to import capital goods and raw materials for its industry and maintain an equilibrium in the balance of payments.

Unfortunately, the expansion of the economy was uneven and unhealthy in the long run. Production in agriculture and industry increased only 75% as fast as the planners had hoped, while growth in the construction and service sector. Moreover, the economy became overly dependent on foreign exchange sent by Turks working abroad, a source that was unpredictable and dependent on the boom in Europe. When the downturn came in the early 1970s, the consequences for Turkey were severe.

However, by the end of 1960s, the character of Turkey's economy and society had changed almost beyond recognition. Before the 1960s, Turkey had been predominantly agrarian with a small industrial sector dominated by the state. By the end of the decade, a substantial private industrial sector had emerged so much so that industry's contribution

to the GNP almost equalled that of agriculture. However, there was still a long distance to be covered before Turkish economy could recover.

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