

THE FAILURE STORY OF LIBERAL ECONOMIC POLICIES IN TÜRKİYE: TÜRKİYE-IMF RELATIONS 1954-1960*

TÜRKİYE'DE LIBERAL EKONOMİK POLİTİKALARIN BAŞARISIZLIK ÖYKÜSÜ: TÜRKİYE-IMF İLİŞKİLERİ 1954-1960

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Abstract

After the Second World War, Türkiye, under the influence of international developments, moved closer politically, militarily and economically to the Western Bloc led by the United States of America. Türkiye joined the World Bank and the International Monetary Fund (IMF), which were established under the guidance and encouragement of the United States with the idea of reviving the European economies that had collapsed at the end of the war, and regulated its entire economy according to the legislation of these organisations. The liberal policies that began with the Republican People's Party (CHP) governments came to the fore especially with the Democratic Party (DP), which came to power in 1950, and the success of the agricultural-based economic policies adopted by the DP government between 1950 and 1953 began to decline in 1954. The loans granted to Türkiye by the World Bank for reconstruction and development purposes and the difficulties in financing the debts contracted from international organisations and countries led to the intervention of the IMF in the Turkish economy and the devaluation proposal, which was perceived as an insult to Türkiye during the DP government, but did not find a response from the Menderes governments. The deepening economic crisis after 1958 led, despite the government's resistance, to the signing of a stabilisation programme between the IMF and Türkiye, the devaluation of the Turkish lira to the highest level in its history and the deferral of debts. These decisions, which have left deep traces in the history of the Turkish economy, show first the bankruptcy of liberal and unplanned economic policies and then the reconstruction efforts with the IMF stabilisation programme. This study evaluates the process leading to the stabilisation programme signed between Türkiye and the IMF on 4 August 1958 and its results within the axis of Türkiye-IMF relations.

Keywords: IMF, World Bank, Democratic Party, Devaluation, Stabilisation programme.

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Öz

İkinci Dünya Savaşı sonrası Türkiye uluslararası gelişmelerin etkisiyle siyasi, askeri ve ekonomik olarak Amerika Birleşik Devletleri önderliğindeki Batı Blok'una yaklaşmıştır. Savaşın sona ermesiyle yıkılan Avrupa ekonomilerinin yeniden ayağa kaldırılması düşüncesiyle ABD'nin güdümü ve teşvikiyle kurulan Dünya Bankası ve IMF'ye Türkiye de dahil olmuş ve tüm ekonomisini bu kuruluşların mevzuatına göre düzenlemiştir. Cumhuriyet Halk Partisi (CHP) hükümetleriyle başlayan liberal politikalar özellikle 1950 yılında iktidara gelen Demokrat Parti (DP)'yle ön plana çıkmış, DP iktidarının 1950-1953 yılları arasında benimsediği tarıma dayalı ekonomik politikaların başarısı 1954 yılından itibaren gerilemeye başlamıştır. Dünya Bankası'nın, imar ve kalkınma amacıyla Türkiye'ye sağladığı krediler ve uluslararası kuruluş ve ülkelerden alınan borçların finansmanında yönelik yaşanan zorluklar, IMF'nin Türkiye ekonomisine müdahalesine ve DP iktidarı boyunca Türkiye'ye hakaret olarak algılanan devalüasyon önerisine neden olmuş ancak Menderes Hükümetlerinde karşılık bulmamıştır. Hükümet tarafından gösterilen dirence rağmen 1958 sonrası derinleşen ekonomik kriz, IMF ile Türkiye arasında bir istikrar programının imzalanmasına, Türk lirasının tarihindeki en yüksek değerde devüle edilmesine ve borçların ertelenmesine giden süreci başlatmıştır. Türk ekonomisi tarihinde derin izler bırakan bu kararlar, liberal ve plansız ekonomi politikaların önce iflasını daha sonra ise IMF istikrar programıyla yeniden inşa çabalarını göstermektedir. Bu çalışmada 4 Ağustos 1958 tarihinde Türkiye ile IMF arasında imzalan istikrar programına giden süreç ve sonuçları Türkiye-IMF ilişkileri ekseninde değerlendirilmektedir.

Anahtar Kelime: IMF, Dünya Bankası, Demokrat Parti, Devalüasyon, İstikrar programı.

Introduction

Adopting a liberal economic model under the influence of the post-World War II international conjuncture, Türkiye joined the World Bank and the IMF in 1947 and shaped its economic choices accordingly.¹ The 1950 elections ended 27 years of one-party rule by the CHP and brought to power the DP, which promised liberal economic and political policies.² The DP's rule continued uninterrupted until the 27 May coup, and the economic policies of the DP governments left a deep mark on Türkiye's economic and political history. The DP's agricultural-based economic policy had its heyday between 1950 and 1953, but the positive atmosphere in the economy began to decline after 1954.³ In the years of the DP's economic success, the disruptions in the annual payments of the loan agreements made with the World Bank and the imbalances in foreign payments led the IMF to intervene in the Turkish economy. The economic policies proposed by the IMF and the measures taken laid the foundations for an economy that could survive on foreign loans. Although the economic decline was felt by the masses, the DP managed to return to power in the 1954 elections.⁴

Although the DP managed to return to power, it could not solve the economic problems, could not prevent rapid price increases and foreign trade was in deficit. The growing foreign trade deficit became chronic, and difficulties in obtaining loans put the DP government in a difficult position. In July 1954, due to rising prices, increasing inflation, shortages of goods, and black market activities, the government announced that commercial credit would be restricted to prevent stockpiling of goods and that controls and protectionism would be introduced into the liberal foreign trade regime to combat inflation and profiteering.⁵

The years 1954-1958 can be characterised as a period in which the liberal foreign trade policy came to an end, the economy was in recession, exports declined and import restrictions were imposed.⁶ In 1954, the shortage of foreign currency turned into a depression that put serious pressure on production and investment. In 1955, the government sought foreign loans.⁷ In this difficult economic situation, the USA was considered to be one of the best sources of foreign loans. Deputy Prime Minister Fatin Rüştü Zorlu travelled to the US in May to obtain a \$300 million loan.⁸ Zorlu, who stayed in the US for about twenty days, made contacts with US officials and tried to get the loan that Türkiye needed. As a result of the negotiations, the US refused to grant the \$300 million loan requested by Türkiye.⁹ US officials advised Türkiye to take effective economic measures, without which the economic base of the Turkish nation, the keystone of Western defence in the Middle East, would be dangerously weakened. The US advised Türkiye to stop inflation, cut the development programme, balance the budget, ensure competition for export goods and take drastic economic measures.¹⁰

¹ Yalçın Doğan, *IMF Kıskaçında Türkiye 1946-1980*, Toplum Yayınevi, Ankara 1980, p. 65.

² Cem Eroğul, *Demokrat Parti, Tarihi ve İdeolojisi*, İmge Kitabevi Yayınları, Ankara 2003, p. 83.

³ Tevfik Çavdar, *Türkiye'nin Demokrasi Tarihi – 1950'den Günümüze*, İmge Kitabevi Yayınları, Ankara 2008, p.48

⁴ Ali Fuad Başgil, *27 Mayıs İhtilali ve Sebepleri*, Yağmur Yayınevi, İstanbul 2011, p. 97.

⁵ Feroz Ahmad, *Demokrasi Sürecinde Türkiye*, Hil Yayın, Ankara 2010, p. 79.

⁶ Korkut Boratav, *Türkiye İktisat Tarihi*, İmge Kitabevi Yayınları, Ankara 2010, p. 107.

⁷ Kemal Kurdaş, *Ekonomik Politikada Bilim ve Sağduyu*, ES Yayınları, İstanbul 1979, p. 10-11.

⁸ Kemal Kurdaş, *Bitmeyen Gaflet ve Türkiye Ekonomisinin Çöküşü*, ODTÜ Geliştirme Vakfı Yayıncılık ve İletişim Yayınları, Ankara 2003, p. 19.

⁹ *Zafer*, 11 June 1955.

¹⁰ *Akşam*, 11 June 1955.

The failure of Türkiye, which was surviving on foreign loans, to demand loans led to difficulties in the import requirements of some foreign companies in the international markets - due to the decline in Turkish purchasing power - and there were rumours that the value of the Turkish lira would be devalued. Contrary to these rumours, the *Cumhuriyet* newspaper of 10 January 1956 announced that, according to information from sources close to the government, the Turkish lira would not be devalued and that the Turkish currency was stronger than ever.¹¹

This report in the *Cumhuriyet* newspaper does not reflect the truth. In fact, before the 1956 budget negotiations, Kemal Kurdaş, Director General of the Treasury, met with IMF officials in Türkiye and informed Finance Minister Nedim Ökmen of the stabilisation measures proposed by the IMF. Kurdaş requested that the IMF's stabilisation proposals be included in the speech presenting the 1956 budget to Parliament and asked the Finance Minister to keep the matter confidential. Among the proposals mentioned was the devaluation proposal.¹² Türkiye faced IMF intervention for the first time in its history.¹³ In his presentation speech to parliament, Menderes said that development projects would be chosen that would not create payment imbalances, that savings would be made throughout the country, that the operating and investment costs of state enterprises would be covered by their own revenues, and that care would be taken not to increase agricultural credit.¹⁴ Menderes rejected the IMF's stabilisation measures, but with these decisions he abandoned the priority of agricultural development, which had been the main plank of the DP government's programmes.

IMF representatives Goldfrey Clark, Ernest Sturc and Earnest Withard also visited Türkiye on 21 April 1956.¹⁵ In its first statement, the delegation said it had not come to Türkiye to analyse the value of money or credit issues but to carry out some investigations.¹⁶ Following the delegation's analysis, it was decided that Türkiye should definitely receive aid and that the Turkish lira should be devalued. Following this development, Memduh Aytür, Director General of the Treasury, accepted the IMF's proposals at a meeting attended by Melih Esenbel, Secretary General of the International Economic Cooperation, and Emin Kalafat, and it was decided to open official negotiations with the IMF but to hold the negotiations outside Türkiye, in Vienna.¹⁷ Sait Naci Ergin and Ziya Müezzinoğlu represented Türkiye at the negotiations in Vienna.¹⁸ During the negotiations, it was decided to reduce the Turkish lira's exchange rate against the dollar from 280 to 520, with effect from 13 July 1956, to defer the debts owed to OEEC members and to provide Türkiye with \$230 million in aid.¹⁹

Following the agreement in Vienna, government officials held an emergency meeting in Çankaya chaired by Celal Bayar. Menderes defended the decisions by saying that 'there was no other solution left with the IMF', but the ministries of trade and foreign affairs, especially Zeyat Mandalıncı, the trade minister, opposed the decisions on the grounds

¹¹ *Cumhuriyet*, 10 January 1956.

¹² Yalçın Doğan, *op. cit.*, p. 94-95.

¹³ Nazif Ekzen, *Türkiye Kısa İktisat Tarihi*, ODTÜ Yayıncılık, Ankara 2009, p. 44.

¹⁴ *Akşam*, 20 January 1956.

¹⁵ *Ulus*, 22 April 1956.

¹⁶ *Cumhuriyet*, 22 April 1956.

¹⁷ *Cumhuriyet Dönemi Türkiye Ansiklopedisi (CDTA), Dış İktisadi İlişkiler/IMF Cilt:II*, İletişim Yayınları, İstanbul 1985, p. 495.

¹⁸ Yalçın Doğan, *op. cit.*, p. 96.

¹⁹ CDTA, *op. cit.*, p. 495.

that 'it would be a decision taken without the necessary studies' and put pressure on the decisions not to be taken. Mandalinci's opposition caused concern among other ministers and it was decided that the decisions would be analysed by a scientific committee. The scientific committee, which was set up as a matter of urgency, recommended that the devaluation should be abandoned and that the National Protection Law should be implemented instead.²⁰ The government's decision to implement the National Protection Law was communicated to the delegation in Austria and the devaluation was abandoned, which shocked the IMF officials and Ernest Sturc said: 'You will soon be satisfied with 9 TL'.²¹

Following the decisions of the Scientific Committee, the government abandoned devaluation and enacted the National Protection Law on 30 June 1956.²² This decision effectively ended the process of foreign trade liberalisation that had been underway since 1950 with the National Protection Law.²³ Despite this decision, which meant the abandonment of liberal policies and the rejection of the IMF's proposal, on 8 June 1956, with the signature of Sait Naci Ergin, the IMF was again asked for assistance to make some changes in the foreign exchange system, to reduce the pressure on the balance of payments and to facilitate the price stabilisation programme, as well as to reduce the gap between domestic and foreign prices.²⁴ The IMF also sent a telegram on 29 June 1956 informing Türkiye of what it would do to obtain debt relief and foreign exchange purchases from the IMF. In particular, the IMF suggested that the government enact certain laws as soon as possible and that this proposal had been prepared at the suggestion and with the approval of the USA.²⁵

The United States stated that Türkiye could quickly benefit from a \$50 million loan if the debt relief and foreign exchange purchases were implemented, but that economic and financial relations with the United States and all U.S. financial institutions would deteriorate if the plan were abandoned. He also stressed that the assistance to be received from the US and the Fund would depend on this plan.²⁶ After the rejection of the devaluation, while preparations for the IMF proposals continued, Türkiye managed to obtain a loan of 13.5 million dollars from the IMF quota in 1957 to cover the external deficits and foreign exchange needs.²⁷

Despite the difficult political and economic situation, the DP managed to win the 1957 elections.²⁸ The DP government, anxious to get out of the economic doldrums as soon as possible, tried to take decisions to implement the IMF stability programme in line with the restoration of the liberal economy.

²⁰ Yalçın Doğan, *op. cit.*, p. 98-99.

²¹ CDTA, *op. cit.*, p. 496.

²² *Cumhuriyet*, 1 July 1956.

²³ Nazif Ekzen, *Türkiye Kısa İktisat Tarihi*, p. 34.

²⁴ Cumhurbaşkanlığı Devlet Arşivleri Başkanlığı Cumhuriyet Arşivi (BCA), 030.18.1.2/88-552-5 (29.6.1956)

²⁵ Gelir Vergisi Kanunu, Bankalar Muamele Vergisi, Kahve İstihlak Vergisi, Veraset Vergisi, Trafik Resmi. (BCA, 030.18.1.2/88-552-5 (29.6.1956)

²⁶ BCA, 030.18.1.2/88-552-5 (29.6.1956)

²⁷ Stefanos Yerasimos, *Az gelişmişlik Sürecinde Türkiye - Tanzimat'tan 1. Dünya Savaşına*, Cilt II, Belge Yayınları, İstanbul 1987, p. 219.

²⁸ Tahir Kodal, "Sıkıntılı Yıllar 1954-1957", *Kuruluşundan Darbeye Demokrat Parti (1946 -1960)*, V. 1., Ed. Dilşen İ. Erdoğan, İsmail H. Demircioğlu, Serpil S. Şimşek, Yeditepe Yayınevi, İstanbul 2021, p. 821.

A. Stability Programme And Decisions of 4 August 1958

The economic situation in Türkiye became clearer with the statements made by the government during the 1958 budget negotiations. Abdullah Aker, the Minister of Economy and Trade, stated that efforts were being made to overcome the economic difficulties and that 'I hope we will find new credit opportunities' and that the economic difficulties could not be overcome without foreign aid.²⁹

April's gold price fluctuations further undermined confidence in the government, and around this time a motion in Türkiye's Grand National Assembly asked whether the Turkish lira would be devalued, and Finance Minister Hasan Polatkan stated that devaluation was not being considered.³⁰ Polatkan insisted that there would be no devaluation, but two months after this statement, devaluation negotiations were held in meetings between IMF and OEEC members and representatives of the Ministry of Finance.³¹ Although Polatkan knew about the devaluation of the Turkish Lira, he said that there would be no devaluation because the DP governments had always considered the devaluation of the currency as an insult to the Turkish nation and they were not in favour of devaluation.

During June, the IMF delegation of Ernest Sturc, Christophe Dupont and Erik Elmholt worked with the Turkish authorities on a stabilisation package for Türkiye. The delegation presented its report to the Turkish authorities, focusing on the abolition of the National Protection Law, an investment plan and the devaluation of the Turkish lira.³²

As a result of the negotiations and discussions, the Turkish government submitted the first stabilisation programme (memorandum) in the history of the Republic of Türkiye to the IMF on 23 July 1958.³³ The memorandum of 23 July 1958 (stability programme), which meant the bankruptcy of the economic policy of the DP, which was considered the leader and pioneer of development after the Second World War, is very important in terms of being the beginning of the end of the economic policy implemented by the DP governments.

The programme presented by the DP government consists of a memorandum and three annexes. The memorandum contains data on the economic policies pursued between 1950 and 1958 and proposals prepared by the Turkish authorities that Türkiye planned to implement. The memorandum consists of 31 articles and the Minister of Finance, Hasan Polatkan, explained the rationale behind the programme as being to balance the budget, make state economic enterprises self-sufficient, reduce inflation, control bank loans, increase foreign solvency and obtain foreign aid.³⁴

In order to achieve these objectives, it was announced that the government would take decisions within the framework of the programme of the V. Menderes government approved by Parliament on 25 November 1957³⁵, that efforts would be made to eliminate inflationary developments and that foreign exchange adjustments would be made. The memorandum also contained provisions relating to the balance of payments problem.

²⁹ *Cumhuriyet*, 4 January 1958.

³⁰ *Zafer*, 27 April 1958.

³¹ *Cumhuriyet*, 24 June 1958.

³² *Ulus*, July 1958.

³³ Rıza Aslan ve Dilek Sürekçi, *Adnan Menderes Hükümeti'nin IMF'ye Sunduğu İlk Ekonomik İstikrar Programı*, Dora Yayınları, Bursa 2009, p. 4.

³⁴ TBMM Zabıt Ceridesi, 11th Period, 2nd Legislative Year, Volume 7, p. 283. (20 February 1959).

³⁵ *Hükümetler ve Programları 1920-1960 Cilt 1*, TBMM Basımevi, Ankara 1988, p. 210-223.

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It stated that exports should be increased in order to reduce the trade gap and that it was believed that the trade balance could be balanced as soon as possible and that the foreign debt could be paid. However, it was stressed that Türkiye's foreign debt should be postponed as it would take time to achieve a balanced trade. In the concluding part of the memorandum, it was stated that the Turkish government would insist on the implementation of the programme and that it was only through the implementation of such a plan that the Turkish people could enjoy a high standard of living similar to that of the developed countries.³⁶

With this stabilisation programme, Türkiye admitted that it could not pay its debts, that it could not produce for lack of resources and that it needed help from allied countries and institutions, and promised to devalue the Turkish lira. The memorandum was approved by I.S. Friedman and E. Sturc and an agreement was reached between Finance Minister Hasan Polatkan and the IMF and OEEC.³⁷

Following the 23 July Memorandum, Foreign Minister Fatin Rüştü Zorlu, Finance Minister Hasan Polatkan and the accompanying delegation went to Paris to negotiate the measures set out in the Memorandum and the financing of the loans. In Paris, Turkish officials explained to the OEEC, the US, Germany and other OEEC members the 23 July Memorandum and the stabilisation measures they had submitted to the IMF.³⁸

In an interview with the Anatolian Agency on 30 July 1958, Foreign Minister Zorlu stated that international organisations³⁹ and countries had agreed to provide aid to Türkiye and that reports that the aid was conditional on the economy being under control were unfounded.⁴⁰

As a result of the negotiations, assistance agreements were signed between Türkiye, the OEEC, the IMF and the USA on 1 August 1958.⁴¹ After signing the agreements, Hasan Polatkan returned to Türkiye and made the following statement at the airport, saying that he had returned from his trip to Paris satisfied. "Our economy will take a huge leap forward thanks to this aid, which will support the measures included in our government's programme and which are being implemented."⁴²

On 3 August 1958, Polatkan made a statement on the content of the foreign aid, explaining that negotiations had begun with the USA and the Federal German Government and had been concluded with the OEEC and the IMF in Paris and Ankara. He stated that the memorandum prepared by the government was approved by the OEEC and the IMF and that in this context an agreement was reached on the foreign aid necessary for the implementation of the programme.⁴³

³⁶ R.Aslan ve D.Sürekcü, *op. cit.*, p. 133-228.

³⁷ R.Aslan ve D.Sürekcü, *op. cit.*, p. 2.

³⁸ *Cumhuriyet*, 26 July 1958.

³⁹ *Cumhuriyet*, 30 July 1958.

⁴⁰ *Vatan*, 30 July 1958.

⁴¹ *Zafer*, 1 August 1958.

⁴² *Zafer*, 2 August 1958.

⁴³ *Zafer*, 4 August 1958.

Polatkan said that a total of \$359 million in aid had been received, \$234 million from the US,⁴⁴ \$100 million from the OEEC⁴⁵ and \$25 million from the IMF, and that it had also been decided to defer \$400 million in overdue debts to OEEC members in accordance with bilateral agreements.⁴⁶

Polatkan claimed that with the agreements in question, annual imports would rise to \$630 million to meet Türkiye's needs. He said the agreements had two features that would be welcomed by the public: firstly, that Türkiye's reputation abroad would not be damaged, and secondly, that an unprecedented foreign loan would be granted in Türkiye's history.⁴⁷

After Hasan Polatkan's statements, the economic decisions that would go down in the history of the Republic of Türkiye under the name of "4 August Decisions" were announced to the public on 4 August 1958 and the following days in the Official Gazette and on the radio. In fact, with the 4 August Decisions, Türkiye announced the programme presented in the 23 July Memorandum but also took other decisions that would affect the whole economy. The following decisions were taken: (1) The Turkish lira was devalued on a large scale, with 1 dollar pegged at 9 TL, 1 pound at 25.20 TL and 100 lire at 1.92 TL.⁴⁸ However, due to the introduction of a multiple exchange rate system, different exchange rates such as 210, 280 and 620 Kurus were applied depending on the type of export goods. In short, the value of the TL was reduced by 320% and the value of the dollar was increased from 280 Kurus to 900 Kurus. (2) Controlling the growth of the money supply by limiting the use of the Central Bank's resources. (3) Reorganised imports and linked needs to a programme of quarterly quotas. (4) Balance the budget. (5) Include efficient and short-term projects in investment. (6) Increase income tax.⁴⁹

When the decisions were announced, the opposition reacted collectively and strongly. Speaking at the Kasımpaşa Congress on the day the decisions were announced, CHP General Secretary Kasım Gülek said that exports had reached a situation where they could not pay foreign debts and that the loans opened for this reason were not development loans but "rescue loans".⁵⁰ İsmail Rüştü Aksal, the former finance minister of the CHP, argued that it is normal that a mentality that is not based on proper calculation and does not listen to the criticism of the opposition, especially the CHP, and whose irregularities are increasing every day, leads the country into an economic deadlock, that the economic policy that is being insisted on is damaging Türkiye and that Polatkan's statement is proof of how bad Türkiye's economic situation has become, especially in terms of foreign payments, commitments and debts.⁵¹

⁴⁴ *Cumhuriyet*, 4 August 1958.

⁴⁵ The assistance totalled 100 million, of which 25 million dollars was provided through the use of credit quotas and 75 million dollars by the member governments of this organisation. Of this, 50 million dollars was given directly by the Federal Government of Germany, 10 million dollars by the United Kingdom and 15 million dollars by the member states. (*Akşam*, 4 August 1958.)

⁴⁶ *Akşam*, 4 August 1958.

⁴⁷ *Zafer*, 4 August 1958.

⁴⁸ *Ulus*, 5 August 1958.

⁴⁹ CDTA, *op. cit.*, p. 496 ve, Erdinç Tokgöz, *Türkiye'nin İktisadi Gelişme Tarihi 1914-2001*, İmaj Yayınevi, Ankara 2001, p. 144.

⁵⁰ *Vatan*, 4 August 1958.

⁵¹ *Ulus*, 6 August 1958.

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While the opposition continued to criticise the loans, the Turkish Grand National Assembly convened an extraordinary session on 21 August 1958 to discuss the loans.⁵² The meetings are important to hear first-hand the eight-year economic policy of the Democratic Party of Türkiye and the reasons for the loans. The talks began with Foreign Minister Fatin Rüştü Zorlu listing the economic activities carried out in Türkiye over the past eight years. Zorlu said that Türkiye had experienced difficulties due to drought and natural disasters for three years in a row with the Korean crisis and that medium- and short-term loans were taken instead of long-term loans to continue production, but economic difficulties were experienced due to the maturity of the loans before the results of the investments were received.⁵³

Hasan Polatkan, who took the floor after Zorlu, began his speech by saying that the agreements reached would bring the people's welfare to a higher and higher level, and after mentioning the economic indicators of the loans, he said that Türkiye had received loans that were unprecedented in its history.⁵⁴

İsmet İnönü spoke on behalf of the CHP about foreign policy and loans, and after giving his assessment of foreign relations, he also spoke about loans. İnönü said that certain conditions have been accepted for the loans and that these conditions will make the people's welfare worse instead of better.⁵⁵

CHP Ankara deputy İsmail Rüştü Aksal said that the economic policies of the Democrats in 1950-1953 were approved by the CHP, but in 1954 the economy was no longer doing well, and argued that the Democrats, who declared that the loans would increase the welfare of the people, were deceiving the people.⁵⁶

Aksal explained that Türkiye was unable to pay back the cost of the goods and services it had bought due to the end of liberalisation after 1952, that if the DP's economic policy was correct there would be no need to take any new measures, and that the parliament was debating this issue and that with the devaluation "two thirds of the Turkish lira had been cut off".⁵⁷

Despite the opposition's reaction, the government did not accept that a devaluation had taken place and insisted that the scheme was a premium system. Although no devaluation was officially announced, a de facto devaluation was applied by imposing a tax of TL 6.22 for USD 1 on foreign currency-based transactions.⁵⁸

In its Operations Coordination Board report, the US State Department noted that on 3 August Türkiye implemented a de facto devaluation, raising the official effective import rate from TL 9 to \$1 and the three effective export rates from 4.90, 5.60 and 9.00 to \$1.⁵⁹

⁵² Zafer, 22 August 1958.

⁵³ *TBMM Zabıt Ceridesi*, 11th Period, 1th Legislative Year, Volume 4, p. 829 - 830. (21.8.1958).

⁵⁴ *TBMM Zabıt Ceridesi*, 11th Period, 1th Legislative Year, Volume 4, p. 842. (21 August 1958).

⁵⁵ *TBMM Zabıt Ceridesi*, 11th Period, 1th Legislative Year, Volume 4, p. 842. (21 August 1958).

⁵⁶ *TBMM Zabıt Ceridesi*, 11th Period, 1th Legislative Year, Volume 4, p. 846-848. (21 August 1958).

⁵⁷ *Vatan*, 22 August 1958.

⁵⁸ Mehmet Evsile, "Demokrat Parti'nin İktisadi İstiklal Mücadelesi", *Amasya Üniversitesi Sosyal Bilimler Dergisi*, 2 (3) 2018, p. 72.

⁵⁹ *Foreign Relations of the United States (FRUS)*, 1958-1960, Eastern Europe; Finland; Greece; Turkey, Volume X, Part 2, Washington, 19 November 1958.

B. 11 May 1959 Consolidation (Debt Relief)

Following discussions in Türkiye's Grand National Assembly, the government began to implement the decisions taken, and Hasan Polatkan travelled to the United States in September to ensure that the aid was implemented and to explain that Türkiye's economic problems could be overcome with long-term planning.⁶⁰

Polatkan and the accompanying Turkish delegation organised a series of meetings with the relevant US departments, and at the dinner held at the US State Department on the occasion of the visit, the US Secretary of the Treasury stated that the US approved the decisions taken and that the US was confident that Türkiye would implement the decisions taken with "the utmost care and determination".⁶¹ Polatkan spoke of the friendship between the two allies and said that an ally with a strong economy like the US had worked for years to ensure peace in the East.⁶²

At the meeting on 10 September 1958, Polatkan stated that he was sure the US would provide assistance and that Türkiye's economic difficulties were due to its over-ambitious development programme in recent years. American officials stated that Türkiye would be given financial support for defence, whereupon Polatkan promised that the stabilisation programme would be implemented.⁶³

Under Secretary of State for Economic Affairs C. Douglas Dillon visited Türkiye in September. During the talks, Turkish officials said that the 6.5 per cent interest rate on the loans was high. In a cable to the Foreign Ministry, Dillon stated that the high interest rate could affect Menderes politically and suggested that the necessary initiatives be taken to secure a 5 per cent interest rate.⁶⁴

Following Polatkan's visit to the USA, negotiations on the issue of rescheduling and instalment payment of the debt owed to OEEC members, which had been agreed in Paris, began in January 1959 and Foreign Minister Fatin Rüştü Zorlu attended the negotiations on 16 January 1959 on behalf of Türkiye.⁶⁵

After about fifteen days of negotiations, the Ministry of Foreign Affairs announced that the debt relief negotiations had been successfully concluded on 31 January 1959.⁶⁶ According to the agreement, Türkiye's accumulated debt to OEEC member countries and the US, amounting to some \$440 million, would be repaid over a 12-year period at 3 per cent interest.⁶⁷

In Paris, the Foreign Ministry announced the postponement agreement and its terms, but the terms of the \$359 million loan signed five months earlier were not disclosed. CHP Burdur deputy Fethi Çelikbaş asked Finance Minister Hasan Polatkan about the terms of

⁶⁰ *Akşam*, 12 September 1958.

⁶¹ *Cumhuriyet*, 13 September 1958.

⁶² *Cumhuriyet*, 13 September 1958.

⁶³ *FRUS*, 1958–1960, Eastern Europe; Finland; Greece; Turkey, Volume X, Part 2, Washington, 10–12 September 1958.

⁶⁴ *FRUS*, 1958–1960, Eastern Europe; Finland; Greece; Turkey, Volume X, Part 2, Washington, 29 September 1958.

⁶⁵ *Ulus*, 16 January 1959.

⁶⁶ *Ulus*, 1 February 1959.

⁶⁷ *Zafer*, 1 February 1959. The total debt is 440 million dollars. The plan was to pay 15 million dollars in the first year, 20, 25, 30 and 35 million dollars in each of the next four years, and the rest in seven years. (*Zafer*, 1 February 1959.)

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the loan.⁶⁸ In his statement, Polatkan said that \$25 million of the \$100 million owed to the OEEC would be paid from the quota, with an annual interest rate of 3.5% and within three years of the dissolution of the organisation, while the remaining \$75 million would be provided by the member countries and would be paid in two six-monthly instalments after five years with an interest rate of 5.75%. The schedule for the \$25 million received from the IMF was \$2 million in November 1961, \$5.5 million in July 1962, \$8.5 million in January 1963 and \$9 million in July 1963, without interest but with commission.⁶⁹

While this relatively favourable atmosphere prevailed in Türkiye, it was decided to increase the quotas of the IMF and the World Bank at the annual meetings of the IMF and the World Bank in 1958.⁷⁰ Accordingly, the IMF quota was increased from US\$43 million to US\$86 million and the World Bank quota from US\$43 million to US\$115 million.⁷¹ Since the increase in quotas would lead to an increase in the amount of credits to be received, the decisions were welcomed by Türkiye. Moreover, contrary to the decision taken, the fact that the quotas have been increased more than the quotas fixed can be sought in the stabilisation of the Turkish economy by means of stabilisation measures.

Following the decision to reschedule the debts of OEEC members, the “Agreement on the Commercial Debts of Turkish Residents” was signed with the OEEC and the USA in Paris on 11 May 1959.⁷² Thus, the first consolidation agreement of the Republic of Türkiye was signed for the rescheduling of Türkiye’s debts to the OEEC members and the USA, which is known in Türkiye’s economic history as the “Consolidation of 11 May 1959”.⁷³

Oğuz Gökmen, Director General of the Economic Cooperation Department of the Foreign Ministry, made the statement on the agreement. Gökmen said that the debt would be paid in equal instalments until 1962,⁷⁴ that a new import and export regime had been introduced and that Türkiye’s creditworthiness would increase.⁷⁵

The agreement rescheduled Türkiye’s commercial debt and imports on credit. A total of US\$ 376 million in commercial debt, of which US\$ 326 million was principal and US\$ 50.1 million interest, and a total of US\$ 109.7 million in imports on credit, of which US\$ 72 million belonged to the public sector and US\$ 37.6 million to the private sector, making a total of US\$ 487 million in external debt, were consolidated on 11 May 1959 and new instalments were scheduled to run until 2001.⁷⁶

The government has also made some decisions regarding the postponement of debts to countries with which Türkiye has no payment agreement and with which no consolidation agreement has been concluded (Japan, Canada and Pakistan) and according to these decisions it is planned to pay the debts in instalments of 100 thousand dollars.⁷⁷

⁶⁸ *Cumhuriyet*, 2 February 1959.

⁶⁹ *Ulus*, 2 February 1959.

⁷⁰ *Zafer*, 19 April 1959.

⁷¹ BCA, 030.18.1.2./156-8-10 (16 July 1960)

⁷² Nazif Ekzen, *Türkiye Kısa İktisat Tarihi*, p. 39. The countries that have signed the agreement are Germany, Austria, Belgium, Denmark, France, Italy, Luxembourg, Norway, the Netherlands, Portugal, the United Kingdom, Sweden and Switzerland. The USA also participated in the agreement through an exchange of letters. (*Cumhuriyet*, 12 May 1959)

⁷³ *Akşam*, 12 May 1959.

⁷⁴ *Yeni Gün*, 13 May 1959.

⁷⁵ *Cumhuriyet*, 13 May 1959.

⁷⁶ Nazif Ekzen, *Türkiye Kısa İktisat Tarihi*, p. 39.

⁷⁷ *Zafer*, 15 May 1958.

Türkiye, which had been seeking foreign loans even for the implementation of the initiatives promised in the Memorandum and Agreements, was encouraged to obtain foreign loans when J. Cahan, Deputy Secretary General of the OEEC, stated in a press conference held at the Ministry of Foreign Affairs on 2 July 1959 that “if there is a relaxation of credit restrictions, the stabilisation programme will be damaged”.⁷⁸

The first hint of foreign loans was Hasan Polatkan’s speech at the DP Fatih Congress, in which he announced that foreign aid of up to 600 million dollars would be requested, along with a three-year report to be submitted to the OEEC.⁷⁹

A delegation of OEEC and IMF economists came to Türkiye on 2 September 1959 to carry out studies on the 600 million dollars of aid mentioned by Polatkan at the Congress.⁸⁰ The OEEC delegation spent a week investigating and left Türkiye on 8 September 1959. In his statement, the head of the delegation said that the development of the Turkish economy towards financial stability as a result of their investigations was “good and promising”, but did not mention the requested loan of \$600 million.⁸¹

The fact that the loan was not mentioned proved that the international organisations were withdrawing their support from the DP, and this visit by the OEEC delegation was the DP’s last contact with the OEEC, the IMF and the World Bank. The results of the economic stabilisation measures, which were the main activity of the last period of the DP government, produced important results in a short period of time, but could not ensure the recovery of the deteriorated economic balances. Memduh Aytür, the General Director of the Treasury, was blamed for the negative outcome of the last loan request.⁸²

A numerical analysis of the stabilisation measures shows that imports, which were 315 million dollars in 1958, increased to an average of 470 million dollars in 1959-1960. Exports, on the other hand, increased from 247 million dollars in 1958 to 330 million dollars in 1959-1960 but did not reach the average of 370 million dollars in 1950-1953. The ratio of exports to imports, which was 78.5 per cent in 1958, fell to 68 per cent in two years.⁸³ The target of balanced budget could not be achieved and the budget deficit, which was 155 million liras in 1958, increased to 342 million liras in 1959. The promise of raising the welfare level of the people also failed to be realised. While the Gross National Product (GNP) was over 11% in 1958, this value decreased to 4.3% in 1959. The general level of prices continued to increase in 1958 and 1959 and entered into a great stagnation as of 1960.⁸⁴ Türkiye ended the borrowing it started in 1947 due to its inability to pay its debts in 1958 and had to take the 4 August decisions.⁸⁵

The fact that the increase of the dollar from 2.8 to 9 liras was implemented immediately for imports and gradually for exports is due to the fact that the DP did not want to openly express the devaluation decision, which it perceived as an insult to Türkiye. The DP did not fix the exchange rate for three years, and the task of fixing the exchange rate was left to the National Unity Committee (MBK) after 27 May.

⁷⁸ *Vatan*, 2 July 1959.

⁷⁹ *Zafer*, 24 August 1959.

⁸⁰ *Akşam*, 1 September 1959.

⁸¹ *Cumhuriyet*, 8 September 1959.

⁸² Tokgöz, *op. cit.*, p. 145.

⁸³ T.C. Başbakanlık, *Türkiye İstatistik Kurumu, İstatistiki Göstergeler 1923-2011*, Ankara 2012, p. 437-477.

⁸⁴ Nazif Ekzen, *1946-1958-1970 Devalüasyonları*, Maliye Bakanlığı Tetkik Kurulu Yayını No: 1980/226, Ankara 1980, p. 84.

⁸⁵ Kenan Bulutoğlu, *Türkiye’de Yabancı Sermaye*, Gerçek Yayınevi, İstanbul 1970, p. 122.

Conclusion

Türkiye favoured a liberal economic policy in line with the international context that emerged after the Second World War. This policy, which began under the CHP government, was continued by the DP, which came to power in 1950. The agrarian economy implemented between 1950 and 1953 was interrupted after 1954. In particular, the difficulties in disbursing aid and foreign loans provided by the World Bank, as well as payment difficulties, led the IMF to evaluate the Turkish economy. The first devaluation proposals made by the IMF were not accepted by the Menderes governments and the liberal economic policy was abandoned and an attempt was made to solve the economic problems by taking restrictive measures such as the National Protection Law, but these decisions could not solve the problems and as a result of negotiations with the IMF, the stabilisation programme and devaluation were accepted. These decisions to restore liberal policies were the first stabilisation programme in the history of the Turkish economy.

With this stabilisation programme, Türkiye admitted that it was unable to pay its debts and needed help from allied countries and institutions and promised to devalue the Turkish lira. After a series of agreements with the OEEC, the US, Germany and the IMF, decisions were taken that will go down in Turkish history as the August 4 decisions. With these decisions, decisions were taken that would have a direct impact on the lives of the people, such as the devaluation of the Turkish Lira from 2.8 TL to 9 TL to 1 dollar, the linking of the economy to a programme and the increase of income tax. It is worth noting that DP did not mention the word devaluation in any of its statements. The aid received was presented by the DP as an unprecedented step, but the reason for these loans or the economic predicament the country was in was never explained. The CHP, on the other hand, constantly criticised the reasons for the decisions but did not ignore the necessity of the loans.

The devaluation was the largest in the history of the Turkish economy, but it did not bring about the expected economic prosperity. The 1958 devaluation was a turning point in the history of Türkiye's external debt. The Republic of Türkiye, like the Ottoman Empire, became unable to pay its debts after about a century. The debt contracted and postponed during this period laid the foundation for the IMF stabilisation programmes and the borrowing spiral that would continue into the 2000s. These decisions were the first stabilisation programmes in the history of the Turkish economy.

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