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STABILIZATION AND ADJUSTMENT POLICIES AND PROGRAMMES

COUNTRY STUDY 5

TURKEY

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WORLD INSTITUTE FOR DEVELOPMENT ECONOMICS RESEARCH OF THE UNITED NATIONS UNIVERSITY

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PREFACE BY THE DIRECTOR

This monograph is part of a series being published by WIDER on the experience of developing countries with stabilization and adjustment programmes in the 1970s and 1980s. Each study analyzes the package of policies implemented by a specific country; its relations with the IMF and World Bank; the effects of the policies on production, employment, the balance of payments and social welfare; and what other policies might have been followed instead.

The intention of the series is to assist developing countries to devise adjustment policies that would, while accomplishing desirable adjustment and growth objectives, simultaneously remain politically viable in the particular country settings studied.

For this purpose it was thought desirable to explore policy alternatives to the adjustment programmes being implemented. Built into the design of the series, therefore - and constituting indeed its special feature - is the requirement that each study include a 'counterfactual' exercise to illustrate the effects of alternative policies. Utilizing econometric models adapted or specifically developed for each country, the probable effects of alternative policy packages are estimated; the object was to see how far the balance-of-payments adjustment and growth goals of a particular programme might have been achieved at a possibly lower social cost with a different policy mix.

Each country study is written by an independent scholar and expert in the relevant country. First drafts of the studies in this series were discussed at the WIDER conference on stabilization and adjustment policies in developing countries which was held 19-22 August, 1986 in Helsinki.Each study has been reviewed by WIDER's research advisers for the project, Professors Gerry Helleiner and Lance Taylor, and revised substantively by the author as necessary; subsequent editing has been conducted under the overall supervision of Mr Robert Pringle, Senior Fellow, who serves also as editorial adviser on WIDER publications.

A companion volume by Professor Taylor summarizing the experience of the countries surveyed will draw broader implications for the theory and practice of stabilization and adjustment policies; this volume will be published by Oxford University Press. The individual country studies in this series will subsequently be grouped into separate volumes, also for eventual publication by Oxford University Press.

Lal Jayawardena
Director
March 1987

EXECUTIVE SUMMARY

Turkey is not the shining example of successful adjustment that it is often made out to be. The stabilization and adjustment policies followed since 1980 have actually undermined the structure of its economic development without correcting its weaknesses. Indeed, taken with the post-1984 import liberalization drive, these policies have set in motion a gradual de-industrialization of the Turkish economy.

It is true that, in terms of overall output, the economy escaped the worst of the depression of the early 1980s, suffering only a mild recession and then recovering slowly. But this was based mainly on an expansion of exports, which has probably reached its maximum potential levels, and on a further inflow of foreign capital. The whole programme was implemented under the 'benevolent' sponsorship of the major international institutions. Even so, *per capita* GNP regained its 1978 level only in 1984. More important, the policies inflicted permanent damage on the sources of future growth.

Total investment fell by 18 per cent in real terms between 1977 and 1984: and much of the investment that did take place reflected the completion of infrastructure spending by the public sector, such as irrigation schemes. Private manufacturing investment fell by nearly 50 per cent at constant prices during the same period. Employment in manufacturing has fallen, at a time when the labour force has been growing rapidly.

Turkey's adjustment policies have relied mainly on holding down wages and cuts in real public spending - it was these cuts that set off the plunge in private investment. But the private sector has not stepped in to take up the slack, as hoped.

This monograph argues that policies have to be changed. Like other borrowing countries, Turkey's most urgent requirement is to reduce its external debt burden. A *de facto* repudiation of its debt emerges as the principal condition for a resumption of a sustainable growth pattern. If debt repudiation is not on the agenda, effective exchange controls should be re-imposed to prevent the recurrence of uncontrolled debt expansion. High real interest rates which favour the *rentier* classes and deter investment should be eliminated and effective indexation schemes introduced; the excessive depreciation of the Turkish lira should be stopped and exchange rate policy should aim at a gradual appreciation of the effective rate; and the state should resume its historical role as an active participant in, and planner of, economic development. But all this could be justified only on the basis of a far-reaching democratization of Turkish society.

AUTHOR'S INTRODUCTION

The stabilization and adjustment policies followed in Turkey during 1980-84 constituted a complete reversal of the policies followed in the preceding 20 years. Sc their analysis requires at least a bird's eye view of the historical setting leading to their adoption in 1980. This is provided in Chapter I, which also clarifies, at the normative level, the economic policy goals by which 'the good' and 'the bad' in policy matters may be distinguished and evaluated.

This is followed by an analysis and assessment of changes in the relations of distribution in the post-1980 Turkish economy (Chapter II); an investigation of linkages with the world economy - an investigation directly related to the self-reliance goal as stated above (Chapter III); an examination and assessment of changes in the pattern of accumulation, growth and structural change (Chapter IV); and an attempt to set out the main elements of an alternative economic policy orientation (Chapter V).

To start the investigation with income distribution and conclude it with the level of income (and changes thereof) may seem, at first sight, a questionable approach. You cannot distribute what is not initially produced. However, following in the footsteps of classical political economy according to which 'the laws which regulate distribution is the principal problem of political economy'[1], we consider the dynamics of distribution as the central area around which patterns of accumulation and paths of growth of national product are shaped and determined. Under contemporary conditions facing the developing nations, patterns of integration and articulation with the world economy emerge as another and equally crucial area in understanding the dynamics of accumulation and growth. Hence the analysis of income formation and change in the Turkish economy is seen in this paper as the outcome of the dynamics of distribution and of linkages with the world economy and of economic policy elements operating within these two areas.

Finally, since the policy model adopted in the 1980s was the antithesis of 'the model of regulation' which prevailed in the 1960s and 1970s, those two decades will be taken as a frame of reference in our analysis of what has been happening in the 1980s.

This paper is part of a research project funded by WIDER/UNU, Helsinki. The author wishes to extend his thanks to L. Taylor, G. Abdel-Khalek and R. Cortazar for their comments and criticisms on an earlier version of the present paper. However, he alone, is responsible for the remaining errors.

Korkut Boratav

I. HISTORICAL BACKGROUND AND POLICY GOALS

From 1960 to 1976-77 Turkish economic policies show sufficient continuity to be characterized as a specific 'model of regulation'. The dominant features of this model[2] can be depicted by three terms: populism, import substitution and statism.

Populism, under Turkish conditions, refers to a situation in which, due to the existence of a parliamentary regime based on two major parties[3], the popular classes were able to influence political decision-making in areas related to their short-term economic interests; but the same classes were not organized at a level at which they could play roles as alternatives to or junior partners in the political power structure. Their influence was reflected in relatively liberal labour legislation (as one precondition for the emergence and flourishing of a dynamic trade union movement), government wage and employment policies, social welfare schemes, and an expanding agricultural support system.

Import substituting industrialization relates to the articulation of the national economy with the world economy and provides the basis on which planning strategies were constructed after 1963.

Statism refers to the active role of the state in economic activity. Apart from the conventional controls related to import substitution and involvement in various markets, particularly in the marketing of agricultural products, the state also emerges as a dynamic producing and investing agent. Analysis of the period demonstrates that this function of the state was the driving force behind private accumulation as well and that the respective roles of the public and private sectors were complementary.

All major aspects of this model came under heavy pressure in the second half of the 1970s, leading to a

crisis by 1977. There is now widespread agreement among Turkish economists that the 1977-1979 crisis was the result of structural, conjunctural and policy factors. The major structural weakness was the chronic external imbalance. This weakness was aggravated after the oil price shock and the global recession, but even a mild austerity package was never seriously considered by policy-makers. On the contrary, an expansionary policy was pursued by governments during this period: GNP growth rates in real terms approached 6 per cent per annum during 1974-77 with a consequent increase in imports of 2.8 times within four years at the cost of a huge accumulation of short-term external debt, the servicing of which had to be suspended at the end of 1977.

The more interesting question at this stage should aim at clarifying the reasons behind the insistence on expansionary policies during 1974-77. In this respect, the answer probably lies in the particularities of Turkish populism as defined above, in the specific political circumstances of the 1970s. This was a period when the rivalry and confrontation between the two major parties for the allegiance of the main social groups took acute and, at times, violent forms. The alternating governments - the Republican People's Party (RPP) in 1974 and the Justice Party (JP) during 1975-77 - could not afford to suspend the well-rooted distributional and allocational mechanisms of populism. And as the analysis of the collapse of these mechanisms in Chapter II will show, they could produce the intended results only in an expanding economy. Hence the insistence on expansionary policies and the rejection of an austerity alternative during these four years.

However, by the elections in the Fall of 1977, RPP came to power and attempted to implement an anti-crisis policy based on intensifying government controls in the marketing and pricing of "critical commodities". But its main efforts during the two years in power were directed towards negotiating a rescheduling of the short-term debt and the

acquisition of additional external finance to alleviate the severe balance of payments bottleneck. Two years of continuous haggling with the IMF, the Paris Club and the individual creditors and donors produced very meager results. Following the recession, difficulties in the supply of basic necessitites, queues and black markets and a trebling of the inflation rate in two years, the RPP government had to resign leading to its replacement by another JP government.

The stabilization programme which was launched by the JP government in January 1980 led to a three-year agreement with the IMF soon after, which was adopted and transformed into a wider readjustment programme by the military government after the coup of September 1980 and was further developed by the Motherland Party (MP) government after December 1983. This period should be treated as a whole since there was a high degree of continuity in the various stages of its evolution. Leaving its detailed review and analysis to the following chapters, the essential features of the model can be summarised as follows[4]:

First, the programme incorporated all major components of orthodox stabilization and readjustment policies, but with more emphasis on incomes policy than on monetary restraint as concerns demand management. Secondly, it dismantled all the essential elements of the preceding model of regulation, namely its populist, import substituting and statist aspects. Thirdly, after an initial shock treatment - scrapping of price controls, a doubling of the official exchange rate of the Turkish lira (TL) for the dollar and liberalization of the financial system - it followed a mainly gradualist line, particularly with respect to the liberalization of imports and foreign exchange operations. Fourthly, it was implemented under the 'benevolent' sponsorship of the major international institutions and of financial circles and thereby benefited from extremely generous financial support from abroad. Suffice to say that during the first year of the stabilization programme in

1980, it was possible to increase imports by 56 per cent and the current account deficit was allowed to rise by more than 2.7 times and that these favourable conditions of external finance continued throughout the four years which followed. The magnitudes of the above-mentioned components of the initial shock treatment in 1980 went beyond what the IMF was trying to impose on the RPP government in 1979. However, this factor, by itself, is not sufficient to explain the benevolent attitude of foreign donors and international financial circles in 1980 and thereafter. The same circles and the IMF, for example, were not strict when the monetary targets of the Turkish stabilization programme failed to be met. Finally, the policy changes were accompanied by an official campaign with strong ideological overtones against 'centralized, bureaucratic and socialistic' decision-making in economic issues. These changes were taking place under a military rule in which opposition from the left to the main policies of the regime was strictly suppressed. Hence public opinion was subjected to the systematic propagation of the new policy model and the conviction that "no alternative existed" was successfully implanted.

Economic policy goals

Almost by definition, stabilization programmes aim at improving the balance of payments and reducing inflation. But these two objectives are not direct reflections of any component of economic welfare.[5] Since stabilization programmes are variants of economic policy, welfare-linked policy goals of more universal acceptance ought to be at the basis of any assessment of these programmes as well.

Taking into consideration the particular features of the Turkish economy, but in the belief that they have a broader relevance, we propose three goals around which the evaluation of stabilization and readjustment policies can be structured.[6] These are the level and growth of income, the distribution of income and self-reliance.

We believe that there should be no serious cause for disagreement in endorsing these three notions broadly as economic policy goals, even with the more controversial notion of 'self-reliance'. It is when they are translated into operational categories that value judgements and ideological positions create disagreements. The mere task of formulating indicators representing these goals is linked with methodological approaches which may reflect conflicting economic philosophies. Short-term and static interpretations are bound to conflict with dynamic-structural interpretation. Unlike the long-term, when simultaneous but differential improvement in the performance criteria linked with policy goals can be envisaged, the policy maker facing the short-term, particlarly under crisis situations, must resolve the question of appropriate and absolute trade-offs between the goals - something which creates additional difficulties.

II. INCOME DISTRIBUTION

Neoclassical investigations of the distributional impacts of alternative policy models use two concepts of income distribution, one for analysis (functional distribution) and the other for evaluation (size distribution); this paper, however, will utilise a single concept for both purposes, namely income shares of social classes and of major socio-economic sub-groups thereof. This requires a clarification of the conceptual framework and the theoretical approach on which the investigation will be constructed.

Our approach[7] is based on the distinction between primary and secondary relations of distribution. Primary relations of distribution refer to the initial appropriation of the surplus product from direct producers. Secondary relations of distribution, on the other hand, refer mainly to the redistribution of the surplus between sub-groups (strata) of economically dominant classes, between sectors, industries, economic activities and agents. Relative price changes through market operations, financial and fiscal[8] systems provide the major mechanisms through which the initial appropriation of the surplus is modified.

For Turkey, it is empirically impossible to construct time series of income distribution by social classes and socioeconomic groups on the lines presented above. However, it is possible to sidetrack this difficulty by investigating the direction and pattern of <u>changes</u> in income distribution without having recourse to all-inclusive tables of distribution of national income. This approach would require the construction and utilization of a set of quantifiable indicators representing various <u>relations of distribution</u> both at the primary and secondary levels. Changes in these indicators observed in time will, then, be interpreted as reflecting changes in the relative economic positions (and wherever possible in income shares) of socioeconomic groups and/or distributional changes between the conflicting groups.

Table I presents the 'social matrix' on the basis of which relations of distribution will be presented in this paper.[9] If we start with a discussion of the indicators on primary relations of distribution, the table proposes three sets of indicators, each corresponding to one of the main relations of production prevailing in the economy. The indicators of distribution on the capitalist and semi-fuedal relations as summarized in the table should be evident enough.

A few points of clarification may still be helpful. For capitalist relations, as a reflection of the conflicting relationship between labour and capital, wages/value added ratio is the preferable indicator. But it can be complemented and controlled by indicators on real wages - together with data on employment and output - in case time series on wage rates are available. Possible distinctions between state and private industry, for capitalist farming (data for which are unavailable in Turkey) and between industrial groupings should be attempted as far as possible. For semi-feudal relations of production, when large-scale land ownership is combined with small-scale tenancy (usually share-cropping), the indicators on ground rent proposed in the table cannot be constructed for Turkey due to the lack of reliable data.

Primary relations of simple commodity production[10] in the 'pure' sense where wage labour and tenancy do not exist, refer to the distribution of the net output between peasant producer, commercial (merchant) capital and financial (money lending) capital. A suitable indicator representing these relations (except the interest charge on peasant incomes) would be net prices received by farmers as a ratio of prices paid by final users (importers abroad or consumers) for the same group of commodities.[11] In cases of further processing of the agricultural product, value added in the processing stages should be deducted from the calculation. Another relevant indicator of distribution in an agrarian structure dominated by peasant farming is the terms of trade for

agriculture, particularly if the two price indices used in its calculation represent prices received by farmers and prices of non-agricultural inputs. In this case, changes in this indicator, unlike the former, could not reflect the variations in the relative size of the commercial margin, but would capture the changes in the degree of the 'squeeze' of the peasant through backward market linkages. In general, we can accept the terms of trade for agriculture as broadly representing the relative position of agriculture as a whole vis a vis the rest of the economy, but not covering the direct distributional conflict between the peasantry and commercial/financial capital.

The only element of Table I on the secondary relations of distribution requiring elaboration at this stage is the distributional impact of relative prices changes. This is important for the purposes of this paper because relative prices are extremely sensitive to economic policy variables and, more generally, to the model of regulation prevailing in the economy, and also because they have usually been covered in conventional literature within the resource allocation paradigm with only a few half-hearted and misleading attempts[12] at analyzing their distributional consequences.

Relative price changes directly affecting real wages, wages/value added ratios and internal terms of trade have implications for direct producers and may modify the indicators reflecting primary relations of distribution. But in an economy like Turkey where market distortions, partly due to various forms of state intervention, result in the existence of different rates of return between industries and activities, changes in relative prices refer, in the main, to the redistribution of the surplus. Under these circumstances, each set of relative prices should be considered to corrrespond to a particular pattern of income distribution because price changes may reflect not only changes in production conditions and costs, but may also be due to changes in mark-ups or gross margin over costs. It is

this second type of relative price movements which reflect modifications in income distribution in the strict sense and it is here that a good understanding of the pricing behaviour in various spheres of the economy becomes crucial.

Table II provides a picture of marketing channels, price relations and pricing behaviour of major commodity groups based upon the structural characteristics of the pre-1980 Turkish economy. The grouping of the supplying and demanding agents and of commodities as well as their interlinkages is kept at an extremely simplified level.[13] For some commodity groups (numbered 1, 2, 4 and 5) two stages of the circulation process, and thus two different levels of market relations, are considered, whereas manufactured goods are assumed to be directly marketed by producers.

The table is structured on the understanding that four types of pricing behaviour prevail in the Turkish economy: mark-up pricing, flexible pricing independent of short-term changes in cost elements, administrative pricing based on price fixing or price controls by public authorities and world prices translated into import/export prices via the official exchange rate. The type of pricing patterns for the groups of commodities as shown in Table II is based upon empirical evidence as well as on informed observations of the operation of the Turkish economy.[14]

Different pricing behaviour for different commodity groups have strong implications for the distributional consequences of relative price movements. The extensive scope of administrative prices in the economy may lead to de-linking of price movements between technologically or economically inter-related commodity groups and this is bound to have important distributional implications. The so-called theory of 'rents of protection' is implicitly based upon a pure flexible pricing behaviour on the part of imports: overvalued exchange rate leading to cheap imports of intermediate goods (4a in Table II), combined with

flexible pricing of these scarce commodities, is at the source of these 'rents'. A more realistic picture including industrialists and the state as importers (column 4 of 4a) and a widespread pattern of administrative or mark-up pricing for the agents importing (and using) intermediate goods would seriously undermine the conclusions of this particular 'rent' theory.

In short, the framework presented in Table II enables us to encompass at the same time relative price changes of final goods and of those (imported/domestic or agricultural/industrial) cost elements so as to distinguish price movements solely reflecting costs and those due to changing price/cost margins - two cases with different distributional implications. The incidence of recent policy changes in Turkey can easily be integrated into the framework of Table II: changes in the scope of agricultural support policies (Row 2a), price increases in basic inputs produced by the state industry (3), elimination of consumer subsidies (6, 8) and devaluation (4a, 5a, 9) are relevant examples, some of which will be investigated in the following sections.

Income distribution under the populist model

During the 1960s and until 1976-77 when the economy was usually run by centre-right governments with strong business connections, progressive public opinion was shaped by the disclosures in the left-wing media of a series of scandals concerning the so-called 'plunder of the state by private interests' through public/private partnerships, privileged credit/foreign exchange allocations, investment subsidies etc. - all of them clearly related to the aforementioned acquisition of advantageous positions at the secondary relations of distribution. These mechanisms are part and parcel of the gradual conquest of the state by the emerging bourgeoisie - a process whose definite origins go back to 1946 - against the opposition of the radical intelligentsia and the resistance of the <u>étatist</u> bureaucracy. This

resistance, which sometimes took the form of leaking inside information on economic scandals to the public, was ineffectual due to the widespread acceptance of the 'rules of the game' of populism by workers and peasants who perceived no evident conflicts between their own interests and the advantages reaped by the business community at the domain of secondary relations of distribution. This situation was also instrumental in making what we have labelled 'populism' acceptable to the industrial and commercial bourgeoisie.

The prevalence of this particular pattern of populism since the 1960s has favourable consequences for the popular classes of the Turkish society at the level of primary relations of distribution. Significant progress in the real incomes of the working class and the peasantry are realized and built-in mechanisms preventing the systematic deterioration of the relative economic positions of these two classes seem to have emerged.[15] Real wages increased by 62, 72 and 79 per cent between 1963 and 1976 according to three wage series and the overall wages/value added ratio in the manufacturing industry shows a significant stability during this period when employment in manufacturing increased by more than 250 per cent.[16] Terms of trade for agriculture, on the other hand, improved by 21, 28 and 41 per cent between 1960-61 and 1975-76 according to three different series.[17]

If we pass to the secondary relations of distribution during the 'populist' period and first investigate the distributional consequences of relative price changes, some of the findings[18] will, in broad terms, reinforce our conclusions on primary distribution as well: relative prices of the majority of wage goods, including basic services, tend to fall due to the pricing policies of parastatals and to price controls. If we link this result with the foregoing findings on the improvement of the terms of trade for farmers, we can conclude that price movements under the populist model have tended to favour popular classes, but to

operate against those agents involved in the marketing of basic necessities and of agricultural products. Price relations have also deteriorated against intermediate goods mainly produced by the state sector. This can be seen as a major factor behind the deterioration of internal terms of trade against industry under a pure mark-up pricing pattern. But if we interpret mark-up pricing as allowing changes in trend (as against short-term fluctuations) in the relative margin between final prices and costs, this particular pricing pattern would not preclude gradual price improvements in favour of private industry which was not subjected to price controls, mainly consisting of non-essential and durable consumer goods. The same observation would be valid for a wide spectrum of services as well.

Finally, the financial system's decisive role in both the redistribution of the surplus and in facilitating private accumulation should be pointed out. In the absence of an effective capital market, the main agents of the Turkish financial system have been parastatals and private firms as 'deficit' (investing) sectors: households as the 'surplus' (saving) sector: commercial banks and the central bank whose main functions are to cover the deficits of the private sector and of parastatals respectively: and general government. Indicators on the relative magnitude of the private sector deficit are, in general, not lower than those of parastatals.[19]

The banking sector thus emerges as the main component of the financial system which plays essential roles in the financing of investment and working capital requirements of the private sector. This immediately brings into the picture the important role of interest rate policies during the period: net returns on time deposits - the most significant type of financial instrument available for households - were negative in real terms throughout the period. Nominal interest rates on bank loans, on the other hand, were kept more or less unchanged leading to positive real rates during

the 1960s, but falling to negative rates afterwards. Thus during this period, besides their conventional function of facilitating private accumulation, commercial banks were instrumental in redistributing the surplus product from rentiers to private firms. As long as positive margins existed between the nominal average interest rates on the assets and liabilities of the banking system, the prevalence of negative real interest rates did not preclude the acquisition of positive profits by financial institutions. It was also natural that rentiers tended to shift their resources into real estate which registered positive rates of returns in terms of house rents and capital gains.[20]

The populist model in crisis: 1977-79

Under the conditions of economic crisis during 1977-79, the traditional 'populist' mechanisms of income distribution and surplus redistribution came under severe pressure. The erosion of the foundations of sustained growth seriously undermined the degree of freedom and flexibility required for the traditional processes regulating secondary relations of distribution - a development which inevitably created conflicts among segments of the ruling classes on the division of the surplus. The share of the surplus appropriated by the industrial bourgeoisie seems to have declined in favour of the commercial bourgeoisie.[21] Industrial capital was compelled, therefore, to fall back on primary relations of distribution and seek to establish a position of strength there - a challenge to which trade unions responded with equal determination. Hence the intensification of industrial conflicts between 1977 and the military coup of September 1980.[22] This resistance from the unions was successful for a time. Real wages in the manufacturing sector reached their maximum in 1979 both for the private and public sectors (see Table III). State industry, in particular, tried to follow the traditional populist employment and wage policies,[23] but it soon became evident that the limits to these policies had already been

over-reached. The economy had, thus, drifted into a widespread industrial profit squeeze.

The peasantry, unlike the working class, lacking active wages to defend its economic position, faced a sudden deterioration of price relations against itself between 1977-79. Terms of trade for agriculture declined by around one third in three years (see Table IV). It is also significant to note that relative prices of wage goods fell during these years (see Table V) mainly due to the price controls exercised by the RPP government in 1978-79 accompanied by the emergence of queues and black marketing [24] leading to strong dissatisfaction among middle classes and the bourgeoisie as a whole.

The January 1980 stabilization programme was launched under these circumstances. The same circumstances also explain the attitudes of various socioeconomic groups vis a vis the distributional aspects of that programme throughout the following years.

1. Primary relations of distribution

(a) Wage movements

A survey of the repressive wage and labour policies of the 1980s and their subsequent institutionalization through legislation culminating in the anti-labour articles of the 1983 Constitution makes interesting, and sad, reading[25]. Those policy measures with immediate results in wage determination were the banning of strikes and restraining trade union activities immediately after the September 1980 coup, a 70 per cent nominal wage increase for 1980 decreed by the junta immediately after the September coup (a year in which the rate of inflation was 107.3 per cent) followed by the establishment of the Supreme Board of Arbitration to replace the collective bargaining system. The Board systematically adjusted wages to official forecasts of inflation which proved to be nearly always below actual

inflation rates[26]. Delays in the actual implementation of wage adjustments thanks to the paralysis of the unions further eroded real wages.

The incidence of these measures on real wage-costs and on wages/value added ratios are reflected in Table III: between 1979 and 1983 real wage-costs fell by 17.9, 14.2 and 16.4 per cent for workers in the state sector, private sector and all workers respectively. They fell by 37.1 per cent for all employees between 1979 and 1984[27]. As prices of wage goods have risen significantly faster than wholesale prices - i.e. the deflator in Table III - the decline in real wage earnings has been even larger than that observed in wage-costs (see Table VI). A parallel deterioration in the relative economic position of industrial workers vis a vis industrial capital has accompanied the regression in real wages in the 1980s: wages/value added ratios decline by 52.5, 18.3 and 33.9 per cent between 1979 and 1983 for state, private and total industry respectively. This is also a story of forced savings under inflation in which, however, an enforced incomes policy plays a crucial role.

Although civil service salaries do not pertain to primary relations of distribution in the strict sense, indicators of distribution for government employees have been included in Table III and a comparison of columns 5 and 9 with the relevant wage indicators shows that the relative economic positions of workers and civil servants have changed roughly in the same direction since 1980.

(b) **Terms of trade and commercial margins for the peasantry**

The main policy tool affecting the relative economic position of the peasantry during the 1980s has been the curtailment of government support policies vis a vis agriculture. Elimination of subsidies from basic input and the gradual contraction of support purchases by public agencies of agricultural products (see Table IV) as part of

the overall policy of withdrawal from market intervention, provided the mechanism in suppressing incomes within the predominantly peasant agriculture of the country.

It is true that changes in agriculture's terms of trade cannot be attributed only to the overall contraction of support policies[28] and further research is necessary for a better understanding of the processes involved. Still, theoretical analysis strongly suggests that a peasant agriculture vis a vis a capitalist urban economy is inherently at a disadvantage in its market relations unless active government policies are used to arrest or reverse the deep-rooted tendencies towards unequal exchange. The investigation of internal terms of trade during the populist decades and the apparent link between the indicators of Table V with Table IV provide some empirical support to this statement.

Table V presents the two sets of relevant indicators on the relative economic position of the peasantry vis a vis manufacture/industry (or roughly the rest of the economy) in general (columns 1 and 2) and vis a vis commercial capital (columns 3 to 7). These indicators show that agriculture's terms of trade (already adversely affected in 1978-79) deteriorated by a further 18-24 per cent in the 1980s and a parallel and generalized widening of commercial margins between retail/export prices and prices received by farmers for comparable commodities (in more erratic fashion with respect to retail prices) takes place.

These results must be contrasted with the orthodox claims about the improvements in the relative prices for the peasantry to be expected from de-regulation and liberalization in a typical import substituting economy. They also show that the continuing depreciation of the lire has hardly benefited the direct producers of export crops; the relevant gains have accrued mainly to the commercial (exporting) bourgeoisie.

The foregoing findings on changes occurring at the level of primary relations of production during the 1980s in conjunction with policy changes operating at the same level, provide strong evidence that the relative and possibly the absolute economic positions of the two major classes of direct producers deteriorated significantly and that this deterioration is linked to the stabilization and readjustment policies of the period. These changes were also taking place in a period at the end of which modest, but real increases in total and per capita GDP were realised (see Table XIV, Chapter IV). It seems that the years of stabilization and readjustment led to a significant redistribution of the national income in favour of bourgeoisie in general. However, these preliminary conclusions have to be supported or revised by investigating the changes taking place at the level of secondary relations of distribution.

2. Secondary relations of distribution

(a) Distributional impact of relative price changes

The 1980 stabilization programme started with considerable price increased of parastatals, the elimination of price controls in most products of the private sector and a substantial devaluation of the Turkish lira (TL). A decision was taken to limit the scope of centralized/administrative pricing by public authorities and leave the management of parastatals producing 'non-essential' goods and services free in their pricing decisions. In effect 'essentials' were limited mainly to the basic intermediate goods produced by parastatals, excluding most of the wage-goods and services. Hence, the scope of administrative pricing in the public sector was narrowed in favour of a lagged version of mark-up pricing resulting in the elimination or curtailing of subsidies involved.

The outcome of these policies on relative prices can be observed in Table VI and VIII for wage-goods and some

intermediate goods-relative prices defined by relating individual price indices to the wholesale price index. Column 5 in Table VII may also be taken as representing the changes in the relative prices of the predominatly imported capital goods.

It seems clear that as concerns wage-goods, the 1980-1984 period completely reversed the direction of changes between 1976-79 and in most cases those during the 1960s and 1970s as a whole. Relative prices of the wage-goods covered in Table VI increased between 22 per cent 102 per cent in 1984 as compared with 1979. This result has implications in two domains: first, it shows that the decline in real wage earnings has been much more pronounced than the decline in real wage costs reflected in Table III as we have argued earlier. Secondly, these relative price changes also have distributional consequences for those industries and activities involved by reflecting differential rates of change in the margin between final prices over material costs - the latter imperfectly represented in Tables VI and VII by the wholesale price index. It is interesting to note that the largest increase in the margin of final prices over material costs occurred in margarine, a commodity produced mainly by private companies, but which was under price controls in the preceding period - possibly reflecting a change from administrative to mark-up pricing.

As we pass to the findings on the relative prices of intermediate goods in Table VII, we observe some degree of continuity with the preceding period. Following substantial price rises in 1980 (150 and 176 per cent for iron products and for cement respectively) the relative prices of these two commodities gradually fell to 25 per cent and 2 per cent below their 1979 levels. Although the relative price of fuels increased with respect to the wholesale price index (column 3, Table VII), this was less than the rise in world

prices and if we shift to the unit import cost of oil products as our deflator (column 4), we observe that the margin between the internal selling price of fuels and their import costs in TL fell by more that 50 per cent between 1979 and 1984 - almost an exact repetition of what has happened between 1971 and 1976. The only group of basic goods whose relative prices increased in the 1980s covered by our table is imported capital goods represented by the exchange rate/wholesale price ratios (column 5).

These results have distributional implications for the relevant industries, mainly in the opposite direction from those observed above for wage-goods industries. As for their impact on resource allocation, relative declines in intermediate goods' prices must have encouraged higher rates of capacity utilization and relative increases in capital goods' prices should have discouraged capital investment. These changes are consistent with our findings in Chapter IV.

The overall picture which emerges from the pattern of relative price variations including those happening for agriculture should be investigated within the framework of Table II. As concerns pricing behaviour - and using the symbols of the Table - a definite shift from ADP to FP (for commodity groups 2a, 2b and 8) and from ADP to MKP (6) with adverse distributional consequences for farmers and consumers of wage-goods takes place. ADP pattern continues to prevail for (3) and - albeit in more restricted scope - for (4b). The scope of WP, by definition remains unchanged, but the magnitudes involved are drastically affected by the continuing depreciation of TL with repercussions into other commodity groups. Some of the distributional implications of these developments - as reflected in the readjustments and variations in the relevant margins - have been discussed in this chapter; but further research is required for a full understanding of the emerging picture.

(b) The financial system and income distribution

It was mainly through interest rate policies that changes in the financial system took place in the 1980s. Between mid-1980 and the end of 1983, banks were left free to set deposit interest rates. From December 1983 onwards ceilings on deposit rates were, once again, fixed by the central bank, i.e. effectively by the government. Except for subsidized interest rates on particular categories of credits, loan rates of interest in both periods were left free.

The highly concentrated Turkish banking system responded to the deregulation of the first period in typical oligopsonistic fashion - whereby the large banks were able to impose interest rates for time deposits below the inflation rate in 1980. This led to the flourishing of numerous moneybrokers (called 'bankers') offering nominal monthly rates of interest between 6 per cent to 10 per cent in 1981 when the annual inflation rate was 37 per cent. Some of the larger 'bankers' acted in collaboration with smaller banks, circulating the latter's so-called 'deposit certificates' as well as corporate bonds as an additional guarantee of their own liabilities (sometimes the interest coupons of these financial instruments circulated separately), but many moneybrokers carried their operations solely on the basis of their personal promissory notes, cheques and other debentures[29]. Although the big banks' cartel rate became positive in real terms in 1981, smaller banks consistently tended to violate the agreements on interest rates by offering higher rates to depositors. The government, holding to its belief that equilibrium rates of interest would, somehow, emerge from the chaos, refrained from interfering.

This whole system collapsed at the end of 1981 and early 1982. All moneylenders had to suspend their activities, no longer able to meet their liabilities, with many of them facing criminal charges. This was followed by

banks. The total liabilities of moneybrokers and banks involved in the financial collapse seem to be roughly equivalent to one half of the time deposits in commercial banks in 1981. However the liabilities of the insolvent banks were met ultimately by the central bank though the intermediation of the major commercial banks[30].

The incidence of this episode on income and wealth distribution is not altogether clear at this stage. The small rentiers whose wealth was wiped out were the principal losers. But it is also clear that many rentiers, particularly the 'early comers' to the bonanza, managed to obtain extremely high interest rates for more than two years at the cost of the 'late comers' whose savings and wealth disappeared without significant returns. However, for many middle class elements, interest income was the means to sustain the level and pattern of consumption during this period of austerity and, hence, interest payments were rarely reinvested. The unpaid 'bad debts' to the moneybrokers and banks during these years resulted in windfall gains for the firms and media engaged in these activities. However, without research on the social and economic composition of the various groups of rentiers in the Turkish society, interpretations are mainly speculative.

Turning to the 'formal' financial system, Table VIII gives an overall picture of real rates of return on alternative assets between 1976 and 1978. Although rates of interest on loans are not readily available, it is well-known that the margins between loan and net deposit interest rates in Turkey are very large and, hence, the relationship between rentiers and private firms (as the major debtors to the banking system) which we briefly described for the pre-1980 period has certainly been reversed in the 1980s. In fact, the interest rate policies followed during this period constituted the only significant area which created strong opposition within certain segments of the bourgeoisie.

These novelties in the financial system do not seem to have led to improvements in the financial position of private firms. Although findings after 1981 are not available, a comparison of 'external financing ratios' and 'indebtedness ratios'[31] of private firms shows that between 1974-79 and 1981, the former increased from 1.15 to 1.60 and the latter from less than 1.30 to 2.96[32]. So private firms in general have become more dependent on bank loans under conditions of significantly higher interest rates. Although this may have reflected a redistribution of the surplus from productive capital to financial capital and rentiers, it took place at a time when bad debts increased and the banking system itself became more fragile. Increasing 'external financing ratios', during a period of real declines in capital investment, implied that bank loans were being utilised increasingly to cover working capital requirements of the private sector. Under mark-up pricing and in a period of high loan interest rates with implicit indexation coefficients exceeding unity, this situation injected a significant built-in element to the inflationary process[33].

3. An assessment of changes in the distribution of income under orthodox programmes

Orthodox policies turned the primary relations of distribution against the working class and peasantry and relative price movements reinforced this tendency. The mass of the civilian bureaucracy faced a similar situation. Although the surplus accruing to the other classes of Turkish society increased in relative terms, its internal division also changed through the policy mechanisms influencing secondary relations of distribution. Those rentiers which have avoided the financial collapse and exporters of agricultural commodities[34] have been the beneficiaries. Those segments of the bourgeoisie shifting into industrial exports have benefited from the new export-oriented policies.[35]

An evaluation of changes in income distribution taking place during this period requires explicit value judgements as concerns the conflicting interests of the contesting parties. Our own position is based upon three ingredients. First, we use the same concept of income distribution we utilized in our analysis, namely distribution by social classes and sub-groups thereof. Secondly, we take a pro-labour position in the class sense of the term and, hence, consider any distributional change in favour of the working class and peasantry a positive change and vice versa. This position also rejects the existence of direct distributional trade-offs between classes of direct producers.[36] Finally, we are neutral on the distributional conflicts among rentiers, financial, industrial, commercial capital etc.

Not surprisingly, given the evidence addressed in this chapter, we conclude that adverse and negative changes in income distribution took place during the period of orthodox stabilization.

III. LINKAGES WITH THE WORLD ECONOMY

A. The import substituting phase and the drift into foreign exchange crisis

The articulation of the Turkish economy with the world economy during the two decades following 1960 has rightly been characterized by the familiar term 'import substitution'.

The main problem was that the Turkish economy suffered from chronic trade deficits after 1946, the last year when a trade surplus was realized. Analysis shows that the ratio of imports (M) to GDP (Y) tended to fall during the 1960s, but rose during the 1970s. The ratio exceeded 12 per cent from 1973 to the end of 1977. On the other hand, exports/GDP (X/Y) ratios remained weak and stagnant throughout, fluctuating between 4-6 per cent, showing a particularly weak performance after 1974. X/M ratios tended to deteriorate after 1965 from 81 per cent that year to below 60 per cent in the early 1970s and to lower than the 40 per cent threshold in 1974-77 (see Table XI). Despite the inflow of workers' remittances from abroad[37], the outcome was an eight-fold increase in the external debt between 1967 and 1977, with the composition of the debt changing away from long-term, official and 'soft' loans.

Despite the rise in the ratio of imports to GDP during the 1970s, import substitution criteria continued to dominate investment planning. But import substitution was unable to go deep enough to reduce the overall import dependence of the economy, particularly in the capital goods industries. (The structure of imports during these two decades was predominantly skewed towards capital and intermediate goods - consumer goods occupying less than 5 per cent of imports in the 1970s.) This structural weakness was aggravated by persistence in expansionary policies after 1973, resulting in an inevitable explosion of imports (in US dollars) by nearly three-fold in four years leading to the severe balance-of-payments crisis of 1977.

The external accounts of the second half of the 1970s are still somewhat mysterious. The complicated 'convertible foreign exchange deposits' scheme provided a costly source of short-term borrowing. However, a significant portion of the trade deficit was covered by increasing commercial debts. A significant part of the increase in commercial debts reflected capital flight, and the recognition and acceptance of this fact led to their settlement in TLs in the following years. However, the traditional controls on foreign exchange operations seem to have proved effective in restraining capital flight.

B. Attempts at adjustment: export orientation and import liberalization in the 1980s

(1) Policy Elements

The economic policy measures shaping and modifying the linkages of the Turkish economy with the external world in the 1980s were in line with the well-known components of conventional stabilization policy packages. These included the following: a crawling peg following a substantial devaluation leading to the elimination of the degree of overvaluation of the local currency;[38] a liberalization of foreign currency operations; a gradual but determined move towards import liberalization by removing most import quotas by 1984 and implementing overall tariff reductions;[39] plus subsidies and incentives to complement the self-evident effects of currency depreciation.

(2) Exports: The 'success story'?

Without doubt, export performance was the big 'success story' of the stabilization and adjustment policies in the 1980s. As Tables IX and XI show, both in absolute and relative terms exports showed a remarkable improvement from 1978-79 to 1984 and reached historically record levels and ratios. The relative increase in exports of manufactures was also significant: whereas agricultural exports in current

dollars showed a modest overall progress of 21 per cent between 1978-79 and 1984, the increase in industrial exports in the same period was 7.3-fold and the share of the latter in total exports rose from 30.9 per cent to an astonishing 72.1 per cent in five years. These changes were evidently linked with the change in economic policies and reflected the successful shifting of industrial capacity from domestic to international markets. Excessive export subsidies, exchange rate policies, the ban on employee lay-offs which, in effect, shifted wage-costs from components of prime costs into overheads thus encouraging rates of capacity utilisation and, finally, demand management via incomes policies leading to a significant contraction of internal demand were the relevant policy factors. In this context, export subsidy schemes seem to have been more effective than currency depreciation in promoting exports[40].

Because of the deterioration in the terms of trade, the cost-increasing effects of depreciation were much stronger than its export-promoting impacts: As Table X shows, the real exchange rate of the dollar for exports increased by 26.8 per cent from 1977 to 1984 whereas the same rate for imports shows a much faster (82.3 per cent) increase. Another factor contributing to export performance, which was not linked with specific policy tools, was the ability to sustain a high level of intermediate goods' imports. This made it possible to increase rates of capacity utilization - a factor directly linked to the availability of external finance. It should also be pointed out that the inherent dynamism and potential of Turkey's manufacturing industry - a heritage of the much-criticised import-substituting pattern of industrialization of the preceding decades - was the basis of the export performance of the 1980s.

However, a few words of caution will be required to qualify this apparently bright picture. Apart from the distributional and allocational costs of excessive export subsidies, there is the problem of 'fictive exports' due to overinvoicing encouraged by the exorbitant export incentive

schemes. Although the magnitude is debatable, it is significant that workers' remittances from abroad, one of the sources from which foreign exchange for 'fictive exports' is provided, fell by 40 per cent from 1981 to 1983 and in 1984 was about $700 million below the 1981 peak.[41]. Another negative aspect of the export boom was the deterioration of external terms of trade by 27.1 per cent between 1978-79 and 1983-84 (Table XI, row 11). Hence the question, 'export promotion, but at what cost?'

The relative magnitude of the increase in exports and its incidence on the sub-branches of manufacturing industry and their implications should also be investigated. Between 1978-79 and 1984, the shares of

(i) exports to value added in the tradeable components of GDP rose from 8.7 per cent to 30.8 per cent;

(ii) industrial exports to value added in manufacturing from 6.5 per cent to 43.3 per cent;

(iii) the value-added component of industrial exports to manufacturing value added rose from 2.5 per cent to 15.6 per cent.

Thus a significantly higher ratio of available industrial capacity is now being allocated to external markets; indeed, exports may be approaching maximum potential levels. if so, the level and distribution of investment emerges as the crucial constraint on export prospects during the second half of the 1980s.

The author estimates that, in 1984, manufacturing sectors of significant size with export/output ratios less than 10 per cent included petroleum refineries, motor cars, chemicals and electrical and non-electrical machinery. A detailed analysis of the industries involved highlights serious quality and technological constraints[42] and market penetration/demand difficulties facing their exports.

On the demand side, the successful entry into the oil-rich Middle-East and North Africa markets was a striking factor behind the export boom of the 1980s. The share of these countries in total exports rose from 10.8 per cent to 43.1 per cent between 1979 and 1983 with four leading countries (Iraq, Iran, Libya and Saudi Arabia) constituting 34.2 per cent of the same total (SIS 1981, 1985). However, in 1984 there were already strong indications of satiation in the same markets. Payment arrears and other difficulties related to trade with some of these countries also emerged. With the decline in oil prices and the continuing Iraq-Iran war, the question for the second half of the 1980s was whether OECD or East European markets could be penetrated to compensate for the decline in OPEC markets. The prospects did not appear promising.

These observations suggest that the Turkish economy has probably been approaching upper limits of manufacturing exports due to both capacity and demand constraints. Even if demand prospects were promising, further progress is heavily dependent on investments in the sector.

(3) Imports: The costs of liberalization

The liberalization of imports and foreign exchange operations was continuous but gradual, avoiding the disturbing effects on industrial structure of sudden changes and erratic reversals.

By contrast with the 1970s, the level and availability of capital inflows was not a serious constraint on imports in the first half of the 1980s. Capital inflows not only covered a cumulative current account deficit of $10.5 billion during 1980-84, but also debt repayments and other items so that gross capital inflows may have reached $13.8 billion or more, approximately one half of total export earnings of the same period. This picture should be contrasted with the extremely unfavourable situation as

concerns capital inflows during 1978-79 and ought to be taken into consideration in assessing the 'success' of the stabilization policies of the 1980s. Import levels and M/Y ratios have consequently risen significantly, the former roughly twice the average levels of 1976-79; the latter also doubling to a record high of 22.2 per cent from the average ratios of the (relatively high) 1974-79 period. (See Tables IX and XI on the foregoing discussion.)

Although the high and increasing level of imports was probably the main factor behind the positive growth rates from 1981 onwards, these figures also give a strong impression of the existence of uncontrolled components of the import bill, not linked with the growth and production requirements of the economy. To substantiate this impression requires the analysis of the composition of imports and changes thereof in real terms. The conventional classification of imports into capital, consumer and intermediate goods, although significant for many purposes, is not completely reliable because many imports whose immediate destination is the satisfaction and servicing of consumption requirements (e.g., items like oil for heating and for private transport, spare parts for cars, personal computers) are registered as capital and intermediate goods. This is an important defect because when the import regime shifts from a quota-controlled (and presumably planned) one to a tariff-based 'liberal' one and when tariff rates are gradually being equalized, the composition of imports will be determined by expected rates of profits on imported goods - a factor heavily dependant on the structure of market demand. In an underdeveloped country like Turkey, given the class structure, under these circumstances an explosion in non-basic or consumption-oriented imports (in the wider sense above) would be expected to occur at the cost of imports oriented towards current production and accumulation. Unfortunately, Turkish data are unsuitable for distinguishing the former category and we shall be confined to the classification utilized in Table XII based on imports of capital (M_k), consumption (M_{con}) and intermediate (M_{int})

goods which can further be divided into their oil (M_p) and non-oil (M_h) components.

The trend and shares of the major components of imports from 1976-77 to 1984 in nominal dollar terms reflect a definite tendency against M_k and in favour of M_{int} and M_{con}, the latter particularly in 1984, the first year of full-scale liberalization. In order to analyze the implication of import trends on growth and resource allocation, indices based on the nominal values of imports have to be corrected for increases in import costs. This is done by using physical indices for oil imports and constructing a composite index on non-oil import costs (see 'Notes' to Table XII) and deflating the nominal index numbers by this index.

This corrected index of imports shows that M_k in 1984 were one-third lower than in 1976-77 in real terms. Since capital formation in Turkey is predominantly dependant on M_k, this result held serious implications for the growth prospects of the economy in the 1980s. The 1984 'explosion' in M_{con} (nearly twice in nominal, 85 per cent in real terms) was to be expected although the overall percentage of this category of imports remained insignificant. However, with the 1984 liberalization, the expansion of consumption-oriented imports as defined above took place partly within the category of capital goods imports[43]. Equally impressive was the significant increase in M_h, 28 per cent from 1976-77 and 63 per cent from the 1978-79 levels in real terms, mainly covering the requirements of increasing rates of capacity utilization.

The high level of imports made possible by the inflow of external funds kept the economy on a positive growth path. However, the gradual process of liberalization through its incidence on import composition worked against capital formation, in favour of consumption and current production requirements. It follows that the same average growth rates could have been sustained with a lower level of imports (and

of smaller external deficits) or, alternatively, higher levels of capital accumulation could have been attained with the same import bill if the traditional tools of import controls had been retained during this period. These are the main economic costs of the post-1980 import liberalization process[44].

(4) Balance of payments and external debt: still manageable

The gradual liberalization of foreign exchange operations up to 1984, which accelerated that year, took place under conditions of a systematic undervaluation of the lira (see Table X) and positive real rates of interest. This seems to have prevented widespread capital flight - the local money market being preferred by the rentiers. There might even have been some reverse capital flight to finance part of the 'fictive exports' discussed above. The 'foreign currency deposit accounts' launched in 1984 had reached a magnitude of $597 million (CB 1984:30) by the end of the year. Hence, provided that the depreciation of TL and high interest rates are sustained, Turkey does not seem to face the imminence of a debt crisis provoked by large scale capital flights in the Mexican or Argentinian patterns[45]. However, this is far from being a stable situation, relying on a delicate balance between rates of interest and the depreciation of TL (Turkish lira) on the one hand, and the degree of liberalization of foreign exchange operations on the other. Any change in the reverse direction in either one of the former elements will require an immediate increase in government restrictions if a sudden jump in capital flight is to be prevented. Moreover, any dogmatic insistence on a liberal foreign exchange regime imposes an unwarranted degree of rigidity on interest rate and exchange rate policies.

However, the above-mentioned conditions restricting capital flight or inducing rentiers to prefer the local market create opposite tendencies for potential debtors (firms) preferring to obtain loans at lower real interest

rates abroad. If restrictions on private borrowing abroad are relaxed or if such borrowing is officially encouraged (as observed in 1984), the same conditions would be expected to lead to unregulated increases in the private component of the foreign debt - something which occurred after 1981. (See Table XIII). Hence, although present policies seem to have precluded the emergence of a debt crisis due to capital flight, they also have led to the deterioration of the internal composition of the external debt against the shares of both long-term and official (public) debt from 1981-82 onwards on a pattern gradually resembling the 1977-79 crisis situation as Table XIII demonstrates. The table also shows the adverse tendency of increasing debt burden which has exceeded the crisis ratios of 1977-79 from 1982 onwards.

Thus, disturbing elements are accumulating on the structure, level and burden of the Turkish external debt, and the policy-makers, for the moment, do not possess effective tools to prevent further deterioration in this direction.

(5) An assessment of the 'opening up' process

For the purposes of the present paper, and considering the problems of the Turkish economy, we understand self-reliance as a state of things in which a national economy meets the external requirements of its reproduction process by its own (internal and national) resources, at least in the medium term. This understanding of the concept is operationally linked with equilibrium in external accounts and, hence, is not identical with autarchy, being consistent with high volumes of international trade. The 'reproduction requirements' of a national economy, and their external component are, naturally, dependent on the growth and accumulation pattern of the economy and therefore inevitably linked with our third major policy goal, i.e., 'level and growth of income'. But since there may be self-reliant and dependant alternatives for attaining the same growth rate or, more realistically, trade-offs and

conflicts are likely to emerge between these two policy goals, the treatment of self-reliance on its own seems to be justified. As in all areas of policy discussions, self-reliance acquires different dimensions in the short, medium and long-terms and its operationalization is probably more difficult than other policy goals, the longer our perspective is. There exist, without doubt, other than 'external equilibrium' dimensions to the self-reliance concept relevant for developing countries in general, like national command over the resources and real assets (and, even, over the decision-making process in major economic issues) of a country. But for Turkey where direct foreign investment and the role of multinationals within the economic structure are insignificant (and disregarding the wider issues related to the decision-making processes), we can limit our discussion of self-reliance within the narrow definition outlined above.

It is clear that the significant increase in exports and the consequent improvement in a number of external indicators, i.e., rising X/M and X/Y ratios, were, under the conditions of the Turkish economy in the early 1980s, positive steps towards self-reliance. The extremely weak export performance of the economy during the preceding two decades was a major factor behind the increasing indebtedness of the economy and its vulnerability vis a vis external shocks; hence any improvement in this direction should be seen as reducing the degree of external dependence of the national economy. However, it is also true that the accompanying process of import liberalization and the inability and/or reluctance to control the level/composition of imports have prevented the reaping of the benefits of the export boom by using it as a lever to shift the economy into a self-reliant path of a self-sustaining nature. There is no logical complementarity between export promotion and the liberalization of import and foreign exchange regimes. Import liberalization, apart from its impact on industrial structures, creates new consumption patterns which quickly become embedded in the life-styles of middle classes; it

creates its own vested interests and is not easily reversible.

Moreover, the continuing increase in the absolute level and burden of the external debt, in great part a result of the inability to control imports, is also a factor aggravating the vulnerability and fragility of the economy vis a vis external developments both of an economic (i.e., interest rate shocks) and non-economic (i.e., political vulnerability) nature. It is also necessary to reiterate that exports, per se, cannot be seen as a policy goal and better export performance can be considered a positive development if, and only if, it contributes to the lessening of the external dependence of the national economy.

Hence, the overall assessment of post-1980 developments in the Turkish economy from the viewpoint of self-reliance gives a blurred picture of the potentialities created by positive developments turning into missed opportunities partly because of a dogmatic attachment to an overall liberalization project.

IV. ACCUMULATION; GROWTH AND STRUCTURAL CHANGE

A. The traditional-statist pattern of accumulation

The mode of accumulation prevailing in the Turkish economy during the 1960s and 1970s was a statist pattern whose particular features were briefly elaborated in Chapter I[46]. Both in its productive and investing functions, the state was the leading force in economic activity, playing a mainly complementary role in the development of the private sector and, consequently, the issue of the public sector 'crowding out' private accumulation and production was never seriously conceived. The existence of a relatively effective planning mechanism starting in the early 1960s in which public sector investment targets were implemented through budgetary allocations and the widespread system of incentives for the implementation of private sector investment targets meant in effect that a significant area of resource allocation was subject to centralized-political decision making, although decision-makers usually accommodated themselves to market signals emanating from the pattern of demand[47] and were influenced by regional and sectoral lobbying through the political process.

As we come to the end of the 1970s, the relative shares of the private sector in investments and in industrial production gradually exceeded those of the public sector, although the second ratio was significantly affected by the deterioration of relative prices against products the state industry. The share of the private industry in total investments averaged 52 per cent during 1973-77[48] and reached 63.6 per cent within the gross output of manufacturing industry by 1980. Within manufacturing industry, the shares of the public sector were 55.2 per cent in intermediate goods, 26.7 per cent in non-durable consumer goods, 30.3 per cent in capital goods and practically nil in consumer durables - all the relevant shares tending to decline from the 1960s onwards[49]. The share of government expenditures in GNP, on the other hand, showed a tendency to

rise and reached 27.7 per cent in 1979 and public sector deficit/GNP ratio rose to 10.5 per cent by the same year.

Starting with the first five-year plan (1963-67), relatively high and stable rates of growth wer realised, both at the global and sectoral levels. Average annual growth rates between 1963 and 1977 of GNP, industry services and agriculture were, 6.8 per cent, 9.8 per cent, 7.7 per cent and 3.7 per cent.[50] Rates of inflation, on the other hand, averaged slightly above 5 per cent between 1961-70 and then leaped to a new threshold of 15 per cent immediately after the 1970 stabilization programme and fluctuated around this rate up to 1977 and accelerated significantly thereafter (Table XIV, row 5).

B. The "market-based" model and its consequences

(1) Policy elements of the new model

The advocates of present stabilization-readjustment policies in Turkey occasionally refer to the broad framework within which these policies operate as 'the transition from bureaucratic decision-making to a market economy'. This characterization is misleading, if only because it disregards the major role which the market played in the implementation of resource allocation decisions during the pre-1980 period, yet it reflects the way policy-makers in the 1980s perceive the economic paradigm and defines, in a way, their ideological positions. They have a determined preference in favour of global and non-selective policy tools; and in favour of privatization and de-regulation. They are against selective policy tools, state involvement in productive activities and in the market process.

This faith in the superiority of the market in resource allocation dominated the official rhetoric of the 1980s. The scrapping of multiple exchange rates, import quotas and price controls, and the recent tendency to do away with export subsidies[51] and differential interest rates, most of

which have already been reviewed, are part and parcel of the de-regulation process and reflect the bias against selective tools. However, a pure monetarist approach was not possible because policy-makers, like their predecessors, were soon faced with the fact that the money supply in the Turkish economy is predominantly a dependant variable, adjusting itself to the various real changes in the economy. And it was, therefore, through incomes and fiscal policies that demand management was actually implemented without excessive pressure from the IMF on the monetary targets of the stabilisation programme[52].

Fiscal policy, hence, came to the forefront both as a major macroeconomic tool and as the mechanism through which government disinvolvement from productive activities was to be realised. On the macro-economic impact of fiscal policy, a concerted effort was exerted to reduce the public sector deficit by effecting a relative decline in government expenditure and a relative increase in the surpluses of parastatals; but no effective attempt was made to expand the tax base and increase tax revenues in real terms. The results, in summary form, can be observed in Table XVI: the share of public expenditures in GNP declined from 24.1 per cent for 1977-79 to 19.5 per cent for 1984; price increases for parastatals eliminate the overall slightly exceeds the comparable ratio in 1977. However, because of the relative stagnation in the tax component of public revenues, the decline in the share of the public sector deficit in GNP from 6.9 per cent (1979) to 3.1 per cent (1982) was reversed in 1983 and by 1984, this ratio exceeded the 1977-78 level.

On the privatization of the public sector, as earlier exercises in the same direction had already shown, the private sector was unable and/or reluctant to take over any of the existing public enterprises. However, in 1985, the government decided to abolish state monopolies in a number of areas (e.g., tea, tobacco, airlines); but the implementation and the outcome of this radical measure was not clear at the time of writing. As will be discussed in

Section 3 below, there was also a concerted effort to shift public investment away from productive activities[53].

The far-reaching changes in the domain of relations of distribution and in the pattern of linkages with the external world during the 1980s affected the level, growth path, major components, sectoral and inter-branch shares and, hence, the structure of the national income. The new economic philosophy we have just discussed has been instrumental in this process either directly through its macroeconomic policy components or indirectly through its incidence on the set of policy variables which have modified the distributional and external parameters of the economy and thus had repercussions on the level, growth and structure of GNP. The following two sections attempt to investigate the magnitude and direction of these changes.

(2) GNP and its composition

Table XIV provides a number of macroeconomic indicators relevant for an understanding of the findings presented therein:

(i) Both globally and sectorally, the stabilization programme was not accompanied by a deep depression. After two consecutive years of mild recession, the economy recovered overall from the trough of 1980 and total GDP and industry grew by 20.2 and 32.2 per cent respectively in four years. The evidence presented in the preceding chapter and our observations on investments trends below strongly suggest that this growth was mainly due to increased rates of capacity utilization responding to the boom in exports and was made possible by the availability of external finance (increased indebtedness) which maintained a steady flow of imported inputs for current production. However, it should also be pointed out that GDP per capita exceeded its 1978 peak only in 1984. On the employment front, if we take 1978, the peak employment year of the 1970s, as

the base, manufacturing employment index was at 98.9 in 1983 and general employment at 105.5 (SIS 1981, 1985). Given the fact that the active population increased by about 13-14 per cent in five years, these figures would indicate an increase in unemployment ratios - on which there are no reliable data.

(ii) Average growth rates of major sectors and changes in their relative prices moved in parallel fashion. There was no overall improvement in the price ratios between tradeable and non-tradeable sectors. Relative prices improved for industry with respect to both agriculture and services; but deteriorated for agriculture vis a vis services by 30 per cent between 1977 and 1984.

(ii) The overall savings/GNP ratio remained stable between 1979 and 1984, but this was, in the main, due to the relative increase in public savings after 1979. Private saving ratios declined during the post-1980 period of positive real interest rates compared to the late 1970s when interest rates were, as discussed above, below the inflation rate. Despite this, the fallacy of identifying savings with time deposits is still dominant in official circles and provides the justification for offering positive real interest rates to rentiers so as to encourage savings.[54]

(iv) The high inflationary process of 1978-79 was overcome after the shock treatment and corrective inflation of 1980 with the emphasis on keeping wages, salaries and peasant incomes behind the movement in prices. However, the experience of 1981-1984 seems to corroborate the view that as long as the present interest rate and exchange rate policies based on implicit indexation coefficients exceeding unity are pursued, an in-built and inertial inflation of around 30 per cent is probably unavoidable unless new measures in further pressurizing wages can be effectively implemented. The observed fluctuations around the 30 per cent benchmark

are possibly due to the existence of those areas in the economy - agriculture, certain services and some parastatals[55] - which escape mark-up pricing and due to the particular pattern of adaptation to changes in policy variables in these areas.

(v) The most adverse change in the macroeconomic indicators from the viewpoint of growth prospects was the decline in the investment/GNP ratio by 9 percentage points from 1977 to 1984. The implications of this phenomenon are serious enough to warrant further investigation.

(3) Investment trends and patterns

The picture behind the decline in the investment/GNP ratio becomes clear thanks to the findings presented in Table XV. Total investment in constant prices fell by 17.1 per cent between 1977 and 1984 and by 5.4 per cent between 1979 and 1984. Investment in infrastructure was the only component which showed an increase in real terms, whereas manufacturing fell by 40.2 per cent and 22.9 per cent[56] and housing by 25.7 per cent and 39.6 per cent. The same pattern is observable in the shares of major sectors (rows under IIb) within total investment.

Despite the official discourse on privatization etc, it appears at first glance that it was the public sector which kept some degree of dynamism in the investment front during the 1980s. The share of public investments within the total rose between 1977 and 1984. But the apparent dynamism of public investment wass partly due to the completion of some of the investment projects in manufacturing of the Fourth Five Year Plan (1979-1983) in 1980 and 1981 after which public investments in manufacturing declined (by 35.6 per cent by 1984). In addition, the major impetus from the public sector after 1980 derived from investment in infrastructure including those, like irrigation, in agriculture. So, it seems that, starting in 1981, policy moved towards a gradual disinvolvement of the state from productive activities, particularly from manufacturing.

But this disinvolvement from manufacturing did not produce a compensating upsurge in private capital formation. Private investment was drastically affected by the crisis years and by the stabilization measures, declining by the end of the period by nearly 30 per cent and by 15 per cent from 1977 and 1979 respectively. The corresponding real declines (48 per cent and 16 per cent) in manufacturing were even more striking. The persistent stagnation in private manufacturing investment during 1981-1984 when the state was moving out of that sector as an investing agent is also worth emphasizing.

As a result, it is most unlikely that the manufacturing sector will be a leading force of the economy for several years. Our evidence also suggests the existence of structural complementarity between the public and private sectors as far as capital formation is concerned.

(4) An overall assessment of growth performance and prospects

When we come to an evaluation of the outcome of the policies followed in the 1980s from the viewpoint of our third major policy goal, namely, level and growth of income, we, once again, face difficulties related to the conceptual clarification of the relevant goals and problems of defining operational performance criteria to guide us in our assessment.

The mere concept of 'growth' as a policy goal may lead to at least four different interpretations at this level of investigation. The most evident is based on the statistical indicators of GNP growth rates with the obvious proposition that the higher (annual, average, sectoral etc) the rates of growth, the 'better' is the performance of the economy. The second interpretation is based on the question, 'growth, but at what (resource) cost?' and brings into our agenda the efficiency criteria dear to the hearts of neoclassical economists. The third interpretation can be based on an

approach more in line with growth theories distinguishing output increases due to a fuller use of available resources (efficiency) from those due to additions to those resources (growth). Such an approach, when applied to the dynamic problems of a developing economy, would tend to minimise the significance of GNP increases reflecting increases in rates of capacity utilization; and would emphasise, rather, rates and patterns of capital accumulation. A final interpretation would start from this last concept of the pattern of accumulation as the basic determinant behind sectoral and structural changes in an economy leading to different growth paths and prospects in the long run. This approach would tend to take the view that different structures (industry vs. agriculture; capital vs. consumer goods' industries etc) have different impacts on the growth path and, hence, it is not only the rate of accumulation, but its distribution, creating differential effects on these structures, which is relevant.

The assessment of the growth performance of the Turkish economy in the 1980s depends on which of these interpretations is adopted.

Looking merely at the observed GNP growth rates, Turkey has been successful in evading the deep recession experienced by many developing countries implementing orthodox stabilization policies. However, even without integrating elements of other approaches, the empirical evidence suggests strongly that the 1980s will be years of significantly slower growth than the preceding decades allowing only for meager, if any, improvements in per capita GDP. Any non-trivial change in income distribution under these conditions is bound to lead to absolute declines in the well-being of certain social groups and consequent social and political disturbances.

Has the overall efficiency of the national economy improved during the 1980s? The decline in capital/output

ratios and increase in rates of capacity utilization (the two criteria being clearly inter-related) suggest that it has improved. Evidently, under-utilization of the most scarce resource in any economy (capital equipment in the Turkish case) is wasteful by any static efficiency criterion. But when we consider the fact that excess capacity has never been a chronic problem of the Turkish economy except during the crisis years following 1977, the improvement in efficiency does not seem so self-evident when the 1980s are compared with the two decades preceding the economic crisis. Moreover, capital/output ratios can fall to minimal values following declines in investment and, at least for the Turkish case, one cannot recommend trade-offs between capital formation and capacity utilization rates.

This brings us to the question related to the long-term consequences of significantly lower rates of capital accumulation - a criteria which obviously paints a bleak picture for the development prospects of the Turkish economy. The clear-cut ideological bias against statism - which had been the central element in fifty years of Turkish industrialization, - the inherent weaknesses of the Turkish bourgeoisie and long-tested reluctance of international capital to invest in Turkey suggest a scenario with lower rates of capital accumulation and, hence, with a lower long-term growth path.

There has been a consensus among politicians and intellectuals in Turkey during the past sixty years in perceiving structural change leading to industrialization as the way out of backwardness. Nowadays that very consensus is being challenged, both at ideological and at policy levels. Our evidence brings forth the apparently contradictory results that whereas manufacturing industry emerges as the most dynamic sector in contributing to GDP growth after 1980, it is, at the same time the weakest sector as far as real investment trends are concerned. Evidently the former phenomenon reflects the struggle for survival of the Turkish industrialists under the adverse conditions of the 1980s

whereas the latter reflects the pessimism dominating the same class on the future prospects of the sector as well as the incidence of the official bias against state investments in manufacturing. If we also consider the fact that our findings do not, as yet, cover the impact of post-1984 import liberalization measures on investment decisions, the 1980s can, perhaps, be seen as the starting point of a gradual de-industrialization of the Turkish economy. The present writer, who admits to having a bias in favour of industrialization, perceives these new trends and orientations as having an altogether negative impact on the development path of the national economy.

V. CONCLUSION: ELEMENTS OF AN ALTERNATIVE ECONOMIC POLICY ORIENTATION

A. On alternative scenarios for the recent past

A general assessment of the impact of orthodox policies on broad policy goals shows some improvements in certain components of self-reliance (in the form of better export performance) and improvements in short-term output levels at the cost of adverse changes in income distribution and in the long-run growth potential of the economy. Domestic absorption was suppressed by an anti-labour incomes policy as the precondition of successful export promotion and by the set of external and internal policy measures creating a definite bias against capital accumulation.

Was an alternative programme with different results possible and feasible in the 1980s? In one sense the answer is negative, almost by definition: all the positive developments in the economy during the 1980s (increased rates of capacity utilization, positive GNP growth, increased exports) were dependant on the availability of additional external finance in very large amounts and the availability of the major portions of external finance (via the intermediation of IMF) was in turn dependant on the adoption of the stabilization programme. This chain of causation makes any economic analysis of the comparative consequences of alternative policy packages irrelevant, because there are no practical and comparable alternatives.

But the question can be posed in a different way and for a hypothetical situation as follows: 'If the same magnitude of external finance was available unconditionally, would an alternative programme have produced different and better results?' Our analysis of the 1980s suggests that two critical questions have to be answered as prerequisites of this reflection: (i) Was it possible through a set of alternative policy measures to restrain domestic absorption in favour of external markets without changing income

distribution against labour in general? (ii) Looking at the phenomenon ex post, is there a significantly large portion of what we have called consumption oriented imports within the high import bills of 1980-84 which could have been utilized for capital goods imports with positive consequences for the rate of accumulation, presupposing the existence of a set of policies for creating investment demand corresponding to any increase in the imports of these goods?

If we come up with positive responses to both questions, it follows that there was an alternative path in 1980 with 'better' consequences for the three policy goals formulated earlier. If the answer to one of the questions, is negative, there emerges an indirect trade-off between the goals of distribution and of long-term growth (accumulation). The outcome would still have been 'better' than the actual one in which both of these goals have been adversely affected. And if the answers are negative to both questions, then there seems to have been no viable alternative to the actual path followed.

B. Looking towards the future

Turkey is no longer in the midst of a severe balance-of-payments crisis similar to the one she faced in the late 1970s and therefore this seems a suitable moment for economists, political movements and actual policy-makers to start re-thinking medium and long-term policies for the economy. Unfortunately, the persistence of a high inflation rate keeps policy-makers confined to the short-term constraints of a stabilization approach to policy issues with the mechanical insertion of the ideological elements of the 'readjustment through market orientation' approach.

A constructive and realistic approach beyond the short-term requires a balance sheet of the structural deformations and positive parameters which the economy was exhibiting as it reached the second half of the 1970s before

being submerged in the crisis. Doubtless, our own balance sheet has to be built upon the normative positions we have already adopted in defining and elaborating economic policy goals. Although this normative position-taking is indispensable, an additional and objective basis in the characterization of a particular attribute of the economy as a deformation or a positive parameter can, perhaps, be provided by an international comparison of countries at 'similar' levels of development[57].

An initial assessment of the relevant features of the Turkish economy in the mid-1970s, with the assistance of such an international comparison, enable us to make several generalizations. The most striking structural deformation of the national economy related to its articulation with the world economy. The economy had an extremely weak export performance and a comparatively high and increasing degree of import dependence. These factors had led to chronic external deficits and an incapacity to sustain the import requirements of the economy for a warranted path of expanded reproduction from its national resources. Secondary elements of structural deformations consisted in a prematurely large tertiary sector and, within industry itself, the existence of a relatively large, but non-viable and weak sub-sector of consumer durables and of a small capital goods sub-sector. This last phenomenon was, however, partially a reflection of the overall backwardness and underdevelopment of productive forces, rather than being a structural weakness in the pure sense.

On the other hand, the economy had developed by that time a diversified, and somewhat advanced pattern of industrialization going beyond the simple phase of import substitution. Intermediate goods broadly in line with the resource endowments of the economy were being produced. Another positive structural feature was the fact that, through more than three decades of a parliamentary regime coupled with populist features and a path of development based on the dynamics of the internal market, Turkey had

emerged as a relatively 'high wage economy' among the peripheral countries of comparable levels of development. A relatively high level of wages should be viewed as a positive parameter to which other variables must adjust rather than the other way around.

Preceding chapters have shown that the stabilization and adjustment policies of the 1980s consisted of, or resulted in, undermining most of these positive parameters of the economy and, except for improved export performance, have not attacked significantly its structural deformations. It also seems clear that a policy reorientation in this direction can be realised only on the basis of a planning approach to the economic problem in which the state plays a crucial role as a regulating, investing and producing agent. This central role of the state, in conformity with the historical experience of the country, should be seen as one of the building blocks of a new policy orientation.

Turkish external accounts for 1984 showed a trade deficit of $3623 million and a net surplus of $3290 million of invisibles excluding interest payments abroad. The total debt service (interest and amortization) for the same year was $2885 million.[58] If these figures are used as the starting point of a new policy orientation, it seems that the economy has reached a stage in which foreign exchange earnings of exports, factor and non factor services would be able to meet the import requirements of a possible growth path without the recurrence of a payments crisis on one condition: that the external debt is repudiated de facto if not formally. However, this potentiality of a relatively self-reliant growth pattern is extremely fragile. The ratios of exports to GDP and to its tradeable components have reached historically record levels. The limits of market penetration - e.g., into the oil rich Middle East - have been reached and further increases in export ratios based on existing capacities do not seem possible, or even desirable. Even the maintenance of present export ratios would require the continuation of aggressive export promotion policies. On

the import front, the same fragility calls for strict controls on the level and composition of imports and the reimposition of quotas in line with the planned productive and investment requirements of the economy.

If debt repudiation is not on the agenda, the external financing requirements of the economy with positive, even if modest, growth rates would roughly equal the external debt obligations - a case of borrowing merely to pay back the old loans. In this case the prevention of the recurrence of the uncontrolled debt explosion of the late 1970s emerges as a policy priority requiring the reimposition of effective exchange controls - another building block of a new policy orientation.

Economic policy-making in pre 1980 Turkey had been affected by the absence of co-ordination between government agencies responsible for medium/long-term decisions and those engaged in the day-to-day running of the economy and this unhappy state of things contributed to the inefficiency of economic decision-making during 1978-79. To prevent its recurrence, short-term policy variables, particularly those affecting income distribution and static resource allocation, have to be integrated with medium-term targets and tools.

The detailed investigation of the modalities of this integration goes beyond the scope of this paper. But if we limit ourselves to some of the more important policy tools and issues discussed in this paper within the framework of a medium-term programme under conditions of relatively high inflation rates, the following suggestions on the short-term may be relevant.

Starting with the policy mechanisms affecting primary relations of distribution, a return to a full and unrestricted collective bargaining system emerges as a socio-political necessity going beyond economic considerations. The outcome will probably be fully-indexed

wages whose time-lags and positive margins over the inflation rate will be decided within the bargaining process. Full indexation for non-bargained components and types of labour incomes - including government support prices for agiculture whose coverage and scope should be extended to pre crisis levels - with positive margins, if any, to emerge within the political process ought to replace the present policy of systematic erosion.

On interest rate policies, the present obsession with positive real interest rates for rentiers must be replaced by an indexation scheme whereby coefficients of indexation of slightly less than unity for deposits and bonds should be implemented, resulting in an effective decline in loan interest rates as well. This pro-investment, anti-rentier measure with beneficial distributional and allocational results would also be expected to have an anti-inflationary impact for industrial commodites.

On exchange rate policies, the tendency toward excessive real depreciation of the exchange rate has to be reversed. A gradual, effective appreciation will have positive (pro-industry, pro-investment) allocational and anti-inflationary effects, but its anti-export impact will have to be compensated by a comprehensive system of export subsidies and/or a simple two-tiered multiple exchange rate system. A dual exchange rate regime (which takes into account the complications due to the existence of substantial earnings or workers abroad) whereby exports plus remittances would roughly equal import costs in TL, could lead to a gradual phasing out of parts of the export-subsidy and (in a more limited scale) of import-quota schemes with consequent economies of administration.

In short, these measures constitute a transition to an overall, but non-uniform system of indexation - with de facto indexation coefficients exceeding or equal to unity for variables affecting labour incomes, export earnings and income tax brackets and with coefficients below unity for rentiers and import costs.

The increased involvement of the state in economic management cannot be defended with the framework of an authoritarian psueudo-democracy where unrestrained corruption at the bureaucratic and political levels would inevitably accompany the type of policies we have been suggesting. A deep-going process of democratization of the Turkish society should, therefore, be seen as a necessary condition without which these new orientations in economic policies would have no chance of successful implementation and of survival.

FOOTNOTES

1 Structural adjustment policies seem to address themselves to broader and apparently more welfare-linked goals than stabilization programmes as such, namely improvement in the efficiency of resource allocation - a goal which refers to the level of income as formulated above, but which disregards the dynamic dimension of changing (increasing) available resources and, hence, the growth path of income.

2 From Ricardo's 'Preface' to his Principles of Political Economy and Taxation.

3 For a fuller analysis of this model: Boratav 1986a.

4 These two parties were Justice Party (JP) and Republican People's Party (RPP), both traditional political organizations of dominant class interests, the former to the right and the latter to the left of centre. RPP, however, was somewhat influenced by socialist tendencies in the 1970s which ultimately led to its adoption of a social-democratic platform.

5 All legislation, by-laws and decrees relating to economic policy issues in the 1980s have been compiled in SPO 1980-1985.

6 It should be stated, however, that we do not deny the indirect welfare implications of inflation or of external deficits, but these effects are relevant for any economic phenomenon. (The relationship of external equilibrium with self-reliance as a policy goal will be iscussed further on.)

7 For a more detailed presentation of this approach see Boratav 1986a. This section follows closely the analysis developed in that paper

8 Some elements of the fiscal system - indirect taxes and price subsidies - can be integrated into the distributional analysis of relative price changes.

9 The only socio-economic groups of major importance which, due to theoretical and empirical difficulties, are not covered in Table I are the self-employed professional groups and the so called marginal population in the informal sector, a group with close social interlinkages with the working class in Turkey.

10 This is the most prevalent mode in the Turkish countryside. See Seddon and Margulies 1984 for a survey of an earlier debate on relations of production in Turkish agriculture to which the present writer had made some contributions.

11 Price received by farmer minus unit cost of production (inclusive of all material inputs, but exclusive of value-added elements, ie, actual wage-costs and interest) equals net price.

12 See e.g. the analysis of 'rents' as developed by Krueger 1974.

13 There are nine groups of commodities (column 1) and eight groups of supplying and demanding agents (columns 3 and 4). It is assumed that there are no imports of consumer goods, no local production of capital goods and no private production of industrial intermediate goods.

14 See particularly Aksoy 1982 whose empirical findings and analysis generally conforms to the labelling in Table II.

15 The scope of two crucial factors affecting the economic positions of workers and peasants, namely degree of unionization and the relative importance of government support policies respectively, is of importance in this context. Although no reliable data on trade union membership are available an indirect calculation can be made by taking the sum of workers covered by collective

agreements for two consecutive years as a lower estimate of unionized workers. (Collective agreements cover only union members and are made typically for two years.) This figure fluctuates between 523,000 and 1,003,000 from 1963 up to 1977 and shows a positive trend. (Kepenek 1984: 394) These figures represent rates of unionization between 35% and 53% during the 1970s with respect to 'all workers covered by the Social Security Organization' - significantly high rates even by Western standards. As for the scope of government support policies for agriculture, the ratio of the total value of purchases of agricultural commodities by public agencies to the value-added of the agricultural sector rises gradually during the 1970s and reaches 20.6 in 1975-76 changes between 20% and 100%. (See also Table IV.)

16 See Boratav 1986b. Our calculations of real wages in this paper are based upon the wholesale price indices as deflators and, hence, should be interpreted as representing real wage costs, rather than real wage earnings. For more reliable estimates of this last category, it is necessary to complement these findings with those on price movements of wage goods.

17 Ibid.

18 See Boratav 1986a.

19 For 1974-77, 'external financing ratios', defined as the ratio of emissions of financial liabilities to investments, are 1.15 for private firms and 0.66 for the public sector in general. This essentially shows that private firms have been covering part of their working capital requirements by bank credits. 'Indebtedness ratios' (ratios of financial liabilities to paid-in capital plus accumulated internal funds) are 1.29 for private and 1.17 for parastatals in 1974-76. (Akyuz 1984: 75, 89.) If we exclude the incidence of the deficits of patastatals on the government budget, general government could be considered to be roughly in equilibrium.

20 For nominal and real rates of return on financial assets see Kepenek 1984: 538-539; CMB 1985: 23-25. Between 1975-77 when real rates of return on time deposits fell

from -2.9% to -21.2%, real returns on real estate are estimated to have risen from 6.3% to 9.7%. (Ibid.)

21 See Varlier 1983.

22 Labour days lost due to strikes as a proportion of total employed labour days increased 2.5-fold during 1977-80 as compared with 1973-76. (Kepenek 1984: 394)

23 In the state manufacturing sector between 1974 and 1978, real wage costs per worker had increased by 58% while employment was also rising by 28% and total value added in constant prices was falling by 20%. (Boratav 1986a)

24 Although price indices used in Table V do not take into consideration black market prices, it would be an exaggeration to claim that official prices were irrelevant. It can be conjectured that during these years popular classes were being provided basic necessities from the queues and middle classes from the black market.

25 For good surveys of the policies affecting the labour market and their institutionalization see Ketenci 1985 and Sönmez 1984. The only pro-labour measure adopted after 1980 was the prohibition of laying-off of employees without the formal approval of provincial military authorities.

26 It is interesting to note that double standards were used vis-a-vis workers and rentiers in inflation forecasts. Whenever deposits were implicitly indexed during this period, they were based on more realistic inflation forecasts with indexation coefficients exceeding unity.

27 This last figure may be exaggerating the actual decline due to the partial unreliability of the Social Security Organization (SSO) data on which this calculation was based. (See Boratav 1984a for a discussion of this problem.) On the other hand, the 1983 figures for private manufacturing underestimate the decline in real

wages because the coverage of private manufacturing firms in the surveys was narrowed to those establishments employing 25+ workers (instead of 10+ workers in the previous years). For 1982, with the wider coverage, the decline in real wages since 1979 is 18.1.

28 The deterioration in the internal terms of trade in 1978-79 seems to have occurred to a great degree independently of government policies.

29 The case of 'Banker Yalcin' is narrated by Cölasan (1985) whereby Yalcin, aged 17, decides to become a banker without any capital, furnishes an office solely on loans, manages to collect hundreds of millions TL in two years at around 7% monthly interest rates from depositors, continues operations as long as monthly inflows of new deposits exceed his monthly interest obligations, and runs away to Syria when he can no longer meet his commitments.

30 For an economic analysis of the causes and consequences of the financial collapse: Artun 1985. The collapse seems to have had only minor external links and the following bail-out was a major internal refinancing operation.

31 For definitions of these concepts see note 19.

32 Akyuz 1984: 75, 89.

33 Changes taking place in the fiscal area with respect to their distributional consequences do not bring new elements to the conclusions of this chapter and therefore are not covered here. For their detailed analysis: Turel 1985.

34 See columns 8 and 9, Table V

35 Large corporations which specialized in foreign trade have been granted important privileges and incentives in

export operations. Consequently many smaller industrialists have been forced to channel their exports through these corporations thus sharing their export earnings and subsidies with the latter. Relevant to this issue is the empirical finding of Aksoy (1982: 101) that 'when imports are restricted, trade margins decrease, and when imports are liberalized, trade margins increase.' Although Aksoy's findings are based upon 1950-1979 data, it may also be valid for the post-1980 period of relative import liberalization.

36 The reasoning behind this statement is elaborated in Boratav 1986a.

37 The ratio of workers' remittances to imports reached a peak (56.7%) in 1973, the only year since 1946 when current acounts show a positive balance, thereafter falling to 19% in 1976.

38 See Table X for real exchange rates. It seems clear that the TL undervalued in 1984 with respect to 1976-77 particularly when increases in import costs and export prices in dollar terms are taken into consideration.

39 According to the findings of Olgun and Togan 1984: 34-40, the unweighted average (nominal) rate of protection for the whole profile of industries fell from 76% to 66% and the weighted average tariffs fell from 49% to 43% after the new tariffs in 1984.

40 The ratio of the total value of tax rebates on exports to the value of industrial exports rises from 6% to 19% between 1980 and 1984. (Temel and Ersel 1984) Moreover during a period of positive real interest rates, subsidized interest rates on export credits whose relative magnitude keep on increasing (CB 1983: 49, 1984: 49) remain negative in real terms. (Calculated from data in Kepenek 1984: 538-539) Tax exemptions and the right to use part of foreign exchange earnings were other elements of export incentives. It is true that orthodox policy models tolerate export subsidy schemes as a temporary push to help the reorientation of the economy towards external markets to be phased out and replaced subsequently by exchange rate policies. In the second half of 1984, the government declared its intention to fall in line with this orthodox position

and gradually to narrow the scope of these export subsidy schemes. At the time of writing, the actual implementation and results of this new orientation are not clear. However, empirical evidence on the elasticity of exports with respect to policy measures suggest that industrial exports are significantly more sensitive to tax rebates and to credit incentives than to currency depreciation. (Temel and Ersel 1984)

41 CB 1983: 113, 1984: 111. It could be argued, however, that 'fictive exports' do not affect the level of foreign currency earnings of the economy, but only distorts its composition and may even be a factor in reversing capital flight. This observation, naturally, disregards the adverse distributional impact of the phenomenon.

42 SPO 1985: 221-238, 243-244, 266-271, 278-289. It should also be pointed out that those industries with apparent export potential have significantly high direct and indirect import coefficients. For estimates of import coefficients of major branches of manufacturing industry on the basis of an input-output approach: Temel and Ersel 1984.

43 The 5% increase in real terms of M_k in 1984 can be attributed to this fact since manufacturing investment - the major user of M_k has decreased by 7.7% the same year. (See Table XV, row IBii). If we add this increment to M_{con}, M_{con}/M ratio rises from 4.4% to 7.6%.

44 Since the widespread elimination of quotas took place in 1984 and since nominal rates of tariffs are still very high, it is too early to investigate the impact of competitive imports on the industrial structure as well as the costs and benefits thereof.

45 This observation does not deny the existence of a certain magnitude of 'structural' capital flight regardless of the exchange rate regime and of interest rate policies. However, the magnitude of the Turkish external debt is more or less consistent with cumulated net capital inflows in the balance of payments statistics (excluding direct foreign investment). Total external debt grows by $17.4 billions between 1972 and 1984; the cumulated net capital inflows equal $6.3

billions and $8.8 billions respectively. (Calculations made from SIS, 1981 and 1985; CB 1984.)

46 See Boratav 1983 for the analysis of pre-1980 period from this perspective.

47 Hence the expansion of durable consumer goods sector as the most dynamic branch of private industry from the late 1960s onwards.

48 SPO 1985: 33.

49 Calculations made by the author on the basis of various censuses and surveys of manufacturing industry.

50 Kepenek 1984: 404. It is worth noting that in this typical import-substituting economy, agricultural growth rates accelerated from the first to the third plan and kg/hectar productivities of wheat, cotton, sugar beets, tobacco and sunflower seed increased by 54, 75, 49, 51 and 26 per cents respectively between 1963-64 and 1976-77 (Ibid., p.249). On the other hand, an excessive and premature expansion of the tertiary sector whose share increased from 41.5 to 51.3% can be pointed out as a negative aspect of the growth path of this period.

51 See eg, note 4 above.

52 For a particular aspect of the endogeneity of money supply in Turkey related to agricultural policies see Aksoy 1982. As evidence of IMF's tolerant attitude with respect to monetary indicators, one can refer to the ratios of annual increases in M2 to nominal GDP increases during the four years (1980-83) when Turkey obtained IMF credits. These ratios are, 0.57, 1.52, 2.09, 1.17 from 1980 to 1983 respectively. (IMF 1985: 62)

53 Turel (1985: 98-100) estimates a 6.4% decline in public expenditure in real terms from 1977 to 1984.

54 Let us note that 1978 and 1979, when real interest rates were at their lowest levels, were also years of an investment boom in housing. (Table XV, row IBiv.) The flight from liquid assets into real estate and the price effects thereof encouraging housing investment seems to be the most valid explanation. (See Boratav, Ersel and Kepenek 1984: 51)

55 Therefore the shift from ADP to MKP pattern in parastatals, discussed in Chapter II, should be expected to create an inflationary bias.

56 It is interesting to note that the index numbers of capital goods' imports and those of investment in manufacturing, both in real terms, although calculated by altogether different methods, show strikingly parallel movements, particularly between 1976-77 (or 1977) and 1983, the former declining by 38.6%, the latter by 35.2% between the two dates. (Compare row IIIB of Table XII with row IBii of Table XV.) We argued earlier that the real increase in M_k in 1984 was probably illusory. (See note 43 above.)

57 For an international comparison of the Turkish economy explicitly undertaken for the task formulated in the text: Boratav 1984b.

58 CB1984.

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TABLE I: THE "SOCIAL MATRIX" FOR ANALYSING RELATIONS OF DISTRIBUTION IN TURKEY

Primary Relations of Distribution

Relations of Production	Social Classes	Mechanism	Indicators	Further Distinctions
Capitalist	Worker vs. Capitalist	Money wage determination in labour market. Profits as surplus. Institutional arrangements in labour market crucial.	Wages/value added in current price, real wages (together with output/employment data).	Private and state industry, capitalist farming to be distinguished.
Simple commodity production	Peasant vs. commercial (merchant) capital	Markets for agricultural commodities and for inputs to agriculture. Gov't support policies crucial.	Relative margin of final prices over prices received by farmers, terms of trade for agriculture	Market for loanable funds (moneylending)
Semi-feudel	Small tenant vs. landlord	Share-cropping, other forms of tenancy.	Ground rents/ value added, ground rent per unit of land in real terms	Other types of tenancy between smallholders to be distinguished.

Secondary Relations of Distribution

Relevant Socio-economic Groups	Mechanisms and Categories of Distribution
Industrial and farming capital	Relative prices (of output with respect to cost elements), direct taxes, non-price subsidies and incentive schemes, loan rates of interest
Commercial capital	Commercial margins (can also be integrated into an analysis of relative prices), direct taxes, incentive schemes, loan interest rates
Financial capital	Relative margins between rates of return on financial liabilities and assets, parameters of the financial system, direct taxes, taxes on financial operations
Bureaucracy and military	Civil service salaries, non-salarial material benefits
Rentiers (non-agricultural)	House-rents, interest rates on savings (time) deposits and on other financial assets in nominal and real terms.

TABLE II: MARKETING CHANNELS, AGENTS AND PRICING BEHAVIOUR IN THE TURKISH ECONOMY

Commodity Groups	Nature of Prices and Pricing Behaviour(1)	Supplied and Marketed by	Demanded and Purchased by
1a. Agricultural consumption goods(2)	Prices received by farmers(FP)	Farmers	Merchants
1b. Agricultural consumption goods	Final prices(FP)	Merchants	Consumers
2a. Agricultural raw materials	Prices received by farmers(ADP,FP)	Farmers	Merchants, state(3)
2b. Agricultural raw materials	Factory purchase prices(FP,ADP,MKP)	Merchants, state(3)	Private industry, state(4)
3. Domestic intermediate goods	Factory selling prices(ADP)	State(4)	Private industry state(4)
4a. Imported intermediate goods	Import price in TL(WP)	External world	Importers, private industry, state(4)
4b. Imported intermediate goods	Internal selling price (ADP,FP,MKP)	Importers	Private industry, state(4)
5a. Imported capital goods	Import price in TL(WP)	External world	Importers, private industry
5b. Imported capital goods	Internal selling price (FP,MKP)	Importers	Private industry, state(5)
6. Wage-goods (industrial)	Final prices(MKP,ADP)	Private industry, state(4)	Consumers
7. Consumer durables	Final prices (MKP)	Private industry	Consumers
8. Non-tradable services	Final prices (ADP,FP)	Private sector, state(5)	Consumers
9. Exported goods	Unit export value in TL (WP)	Exporters, state(3)	External world

Notes: 1) FP: Flexible pricing; MKP: Mark-up pricing; ADP: Administrative price fixing by the state or public agencies; WP: World prices x exchange rate
2) Mainly vegetables and fruits, excluding wheat; 3) Public marketing boards; 4) State industry; 5) State sector in the broad sense.

TABLE III: WAGE INDICATORS, 1976-1984

	REAL WAGE(SALARY) INDICES					SHARES OF WAGES AND SALARIES			
	Manufacturing			All	Civil	Wages/V.Added in Manufacturing (%)			Salaries/
Years	State (1)	Private (2)	Total (3)	Employees (4)	Servants (5)	State (6)	Private (7)	Total (8)	GDP(n.a.) (9)
1976	100.0	100.0	100.0	100.0	100.0	27.5	34.8	31.7	15.8
1977	130.7	112.7	120.1	102.4	113.9	40.4	34.6	36.9	17.7
1978	136.2	110.9	120.6	95.2	86.9	46.3	33.1	37.7	15.0
1979	142.4	117.0	127.4	82.3	85.9	51.8	32.2	38.7	15.2
1980	123.6	88.1	101.8	57.6	64.1	35.3	27.6	30.7	12.0
1981	133.1	103.9	106.9	53.6	59.6	22.9	27.7	25.3	10.2
1982	127.5	95.8	106.2	54.4	67.6	20.3	26.3	23.5	10.7
1983	116.9	100.4(1)	106.5	56.9	64.2	24.6	26.3(1)	25.6	9.9
1984	—	—	—	51.8	50.2	—	—	—	7.9

Sources: Calculations based on SIS 1981,1985. For civil service posts: MF 1985:89

Notes: For columns 1-3, annual wages per worker, for column 4, daily wages. Wholesale price index of Ministry of Commerce is used as deflators throughout. Columns 6-9 are based on current prices. Civil service salary bill is assumed to be equal to the GDP figure of "government services" in SIS national accounts and the number of civil servants is assumed to be equal to the total number of posts in all government departments. Annual average salary per civil servant is calculated by dividing the former to the latter. This figure deflated by the wholesale price index numbers gives Column 5. Column 9 is the civil service salary bill divided by non-agricultural GDP at factor cost.(1):Coverage narrowed(see p. 23).

TABLE IV: RELATIVE SCOPE OF AGRICULTURAL SUPPORT PURCHASES BY PUBLIC AGENCIES (%)

Years	As Share of Agricultural GDP (1)	As Shares of Gross Output of Wheat (2)	Cotton (3)	Tobacco (4)
1972-77	17.6	13.6	117.6	61.2
1978-79	16.4	14.3	98.4	87.4
1980-83	13.0	11.0	56.1	63.9

Sources: For value and physical volumes of suuport purchases by public agencies, SPO 1984:141-143. For value of agricultural GDP and physical output of particular commodities, SIS 1981, 1985: various pages.

Notes: Column 1 gives the total value of all agricultural support purchases as a proportion of sectoral GDP in current prices. The other columns give ratios of purchases to gross output, both in physical units (tons). For cotton, volume of purchases refers to raw cotton whereas volume of output refers to lint. Hence the ratio can exceed unity.

TABLE V: AGRICULTURAL TERMS OF TRADE AND INTERNAL AND EXTERNAL COMMERCIAL MARGINS FOR SPECIFIED COMMODITIES, 1976-1984

	Terms of Trade for Agriculture		Indices of Internal Commercial Margins					Indices of Export Price/Price for Farmers	
Years	Agric./ Manuf. (1)	Agric./ Indust. (2)	Bread/ Wheat (3)	Sugar/ S.Beet (4)	Cloth/ Cotton (5)	Ret.Tea/ Tea leaf (6)	Margarine/ Sunflower (7)	Cotton (8)	Tobacco (9)
1976	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1977	103.7	102.6	105.7	91.7	88.3	91.6	87.6	120.1	79.2
1978	80.9	85.1	110.7	93.8	81.6	98.1	99.5	134.2	100.2
1979	64.7	69.3	118.2	99.2	68.0	90.2	92.6	155.2	84.7
1980	60.2	59.8	122.1	190.1	67.8	94.4	118.2	107.6	182.4
1981	60.2	59.8	106.8	135.1	186.0	—	133.5	164.4	183.6
1982	53.6	53.7	118.6	121.9	72.5	—	126.7	183.5	199.1
1983	51.5	51.9	130.0	118.7	85.9	—	113.4	203.3	243.6
1984	53.4	52.7	—	—	—	—	—	—	—

Sources: SIS 1981 and 1985.

Notes: Columns 1 and 2 are based on implicit sectoral deflators of GDP (at factor cost) series calculated by the author. Columns 3-7 are ratios between the the index numbers of Istanbul retail prices and the index numbers of prices received by farmers of the specified commodities. Columns 8 and 9 are calculated by dividing the index numbers of unit export values of cotton and tobacco to the index numbers of prices received by farmers of the same two commodities.

TABLE VI: RELATIVE RETAIL PRICES OF WAGE GOODS, 1976-1984

Years	Bread (1)	Sugar (2)	Margarine (3)	Tea (4)	Electricity (residential) (5)	City Bus Fare (6)	Cotton Cloth (7)
1976	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1977	93.9	81.7	82.3	86.9	93.4	85.2	83.0
1978	78.6	64.3	68.4	73.2	77.9	90.5	56.0
1979	75.4	62.3	68.5	49.6	67.0	73.7	50.3
1980	76.6	84.0	83.2	47.9	85.5	66.7	47.7
1981	83.9	107.5	93.9	—	86.5	86.6	130.8
1982	93.8	97.5	91.4	—	107.9	99.7	52.4
1983	94.0	86.3	93.3	—	106.0	110.9	70.7
1984	92.3	73.2	138.3	65.9	127.0	120.8	74.6

Sources:
Notes:

Calculations based on SIS 1981,1985.
For all columns Istanbul retail price index numbers of individual commodities divided by wholesale price index numbers of Ministry of Commerce.

TABLE VII: RELATIVE PRICES OF INTERMEDIATE GOODS, 1976-1984
(Relations Between Price Indices)

Years	Iron Products/ Wholesale (1)	Cement/ Wholesale (2)	Fuel/ Wholesale (3)	Fuel/ Oil Import Cost (4)	US Dollar/ Wholesale (5)
1976	100.0	100.0	100.0	100.0	100.0
1977	84.6	97.0	93.8	90.6	91.2
1978	80.3	107.0	128.9	137.8	80.1
1979	96.0	106.1	140.8	133.7	68.9
1980	115.0	141.7	183.1	86.3	68.6
1981	94.2	129.5	177.7	69.7	78.9
1982	92.5	128.7	182.7	67.8	92.8
1983	93.2	132.3	192.4	75.4	99.0
1984	72.2	104.2	165.5	63.5	106.0

Sources:
Notes:

Iron products and cement prices from the official price lists of Ministry of Construction, all other data from SIS 1981, 1985. Price indices of the two commodities in Columns 1-2 and the wholesale price index of fuels in Column 3 are divided by the wholesale price index. The index of import cost of crude oil in Turkish liras (TL) is calculated by dividing the TL import value of petroleum products by import volume and indexing the series of unit import costs thus obtained. For exchange rates of 1976-1980, the official rates (TL per dollar) are weighted according to the period of implementation of particular rates. For 1981-1984 -period of flexible and daily rates- exchange rate is obtained by dividing the total TL value of imports by their dollar value.

TABLE VIII: REAL RATES OF RETURN AND HOUSE RENTS, 1976-1984

Years	Time Deposits (1)	Gov't Bonds (2)	Gold (3)	Dollar (4)	Real Estate (5)	House Rents/ Non-agr.GDP (6)	Real Index of House Rents (7)
1976	-10.0	-6.8	-21.5	-4.1	5.9	5.9	100.0
1977	-21.2	-18.4	31.7	-8.8	9.7	6.0	106.3
1978	-26.3	-23.4	57.3	-12.2	3.7	6.1	105.2
1979	-36.0	-34.9	46.9	-14.0	3.4	5.6	99.5
1980	-35.1	-33.2	9.3	- 0.4	4.5	8.4	102.8
1981	9.4	10.3	-27.2	15.0	4.6	5.6	100.4
1982	10.2	11.0	48.3	17.6	4.6	5.5	104.5
1983	- 3.5	- 5.6	-12.3	6.7	4.7	5.2	99.6
1984	4.9	5.3	-21.9	7.1	4.6	5.2	102.8

Sources:

Notes:

Columns 1-3,5 from CMB 1985:25. Column 4 is calculated from Column 5 of Table VII above.Columns 6 and 7 are calculated from data in SIS 1981,1985. Columns 1-5 are annual percentages based on the differential between nominal rates of return and inflation rate.Column 5 is an estimate of real rates of return on real estate defined by CMB 1985:23 as the deflated house rents/ residential construction costs price ratios.Column 6 is the share in % of the GDP figure for "ownership of dwellings" within non-agricultural GDP in current prices.Column 7 is an index based on the index of GDP deflator for ownership of dwellings deflated by the wholesale price index.For US dollar,gains from mere hoarding is calculated.

TABLE IX : MAIN COMPONENTS OF BALANCE OF PAYMENTS, 1973-1984

(Millions of Dollars)

	1973	1977	1978	1979	1980	1981	1982	1983	1984
Exports	1317	1753	2288	2261	2910	4703	5746	5728	7134
Imports	-2086	-5796	-4599	-5069	-7909	-8933	-8843	-9235	-10757
Trade Balance	-769	-4043	-2311	-2808	-4999	-4230	-3097	-3507	-3623
Interest on Debt	-59	-320	-389	-546	-668	-1193	-1465	-1442	-1607
Workers' Remittance	1183	982	983	1694	2071	2490	2187	1554	1881
Other Invisibles(net)	129	-4	299	552	501	965	1223	1272	1409
Current Acc. Balance	484	-3385	-1418	-1108	-3095	-1968	-1152	-2123	-1940
Capital Movements	433	1517	1202	434	2672	1136	1428	1562	1827
-Debt Repayment	-72	-214	-256	-544	-575	-551	-852	-1093	-1278
-Direct Investment	79	67	47	85	33	44	41	72	207
-Proj.&Prog.Credits	376	502	560	1068	2391	1482	1761	1117	1498
-IMF	—	—	170	30	488	359	205	193	-68
-Others (net)	50	1162	681	-205	335	-198	273	1273	1467
Reserves(+:decrease)	-728	-565	-158	-111	-607	-184	-482	-52	-1457
Errors&Omissions	-189	2433	374	785	1030	1016	206	613	1570

Sources:

For 1973,1977-8,SPO 1985;for 1979-1983 CB 1983; for 1984 IMF 1985:108.

TABLE X : REAL EXCHANGE RATES FOR IMPORTS AND EXPORTS, INDICES, 1977-1984

Years	p_w (1)	p_{exc} (2)	p_m (3)	p_x (4)	p_w/p_m (5)	p_w/p_m (6)	$p_{exc(rm)}$ (7)=2/5	$p_{exc(rx)}$ (8)=2/6
1977	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1978	152.7	134.0	114.0	106.0	133.9	144.1	100.1	93.0
1979	250.2	188.9	134.4	124.8	186.2	200.5	101.5	94.2
1980	518.5	389.8	206.0	147.6	251.7	351.3	154.9	111.0
1981	709.2	613.5	199.5	130.8	355.5	542.2	172.6	113.2
1982	888.2	903.9	195.7	122.4	453.9	725.7	199.1	124.6
1983	1160.4	1259.2	175.9	108.1	659.7	1073.5	190.9	117.3
1984	1764.0	2051.0	156.8	109.2	1125.0	1616.9	182.3	126.8

Symbols:

p_w: Wholesale price index; p_{exc}: Official exchange rate (TL per dollar)
p_m: Index of unit import costs; p_x: Index of export prices;
$p_{exc(rm)}$: Index of real exchange rate for imports; $p_{exc(rx)}$: Index of real exchange rate for exports.

Sources:

For p_w: SIS(1985); for p_{exc}: Table VII; for p_m and p_x: SIS(1985), the dollar indices of export and import prices.

TABLE XI: INDICATORS ON TURKISH EXTERNAL ACCOUNTS, 1973-1984 (%)

	1973	1974-77	1978-79	1980	1981	1982	1983	1984
1. X/M	64.7	34.8	47.2	36.8	52.6	65.0	62.0	66.3
2. M/Y	9.8	12.7	8.6	14.2	15.6	17.0	18.4	22.2
3. X/Y	6.1	4.3	3.9	5.1	8.3	10.9	11.3	14.3
4. (M-X)/Y	3.7	8.4	4.7	9.1	7.4	6.1	7.2	7.8
5. CAD/Y	—(1)	4.9	2.4	5.5	3.5	2.2	4.1	3.5
6. (M-X)/I	18.6	43.8	21.8	45.4	38.0	31.8	38.0	n.a.
7. X/Y_{tr}	14.3	9.8	8.7	11.2	17.8	23.7	24.4	30.8
8. X_{ind}/Y_{man}	12.7	9.4	6.5	9.0	19.3	30.2	31.2	43.3
9. $VA_{x\,ind}/Y_{man}$	4.6	3.4	2.5	3.3	7.5	11.4	10.7	15.6
10. TOT(index)	100.0	82.2(2)	74.1	58.1	54.6	51.1	51.0	57.0

Symbols:

Y: GDP in current purchasers' prices, I: fixed capital formation, Y_{tr}: GDP of tradable sectors (agriculture, manufacturing, mining), Y_{man}: GDP of manufacturing sector at factor cost, X_{ind}: Exports of industrial commodities in TL, $VA_{x\,ind}$: Value added component of industrial exports, the rest same as Table IX.

Sources:

For I, SPO 1985: 36. The rest, same as Table IX.

Notes:

$VA_{x\,ind}$ has been estimated by applying the average annual value added/gross output ratios of manufacturing industry based on SIS data to the value of industrial exports. (1): Current account surplus in 1973. (2): 1977.

TABLE XII: COMPOSITION OF IMPORTS, 1976-1984

	1976-77	1978-79	1980	1981	1982	1983	1984
I. Indices in Nominal Dollars							
A) M	100.0	88.6	144.8	1635	161.9	169.0	196.9
B) M_k	100.0	70.9	70.4	98.3	103.4	103.1	118.4
C) M_{con}	100.0	68.6	101.8	1071	109.0	144.9	283.8
D) M_{int}	100.0	102.5	202.0	2148	207.9	218.9	250.6
E) (M_h)	100.0	90.0	136.2	1550	150.0	175.5	227.9
II. % Shares in M							
A) M_k	41.3	33.1	20.0	24.7	26.3	25.1	24.6
B) M_{con}	3.1	2.4	2.1	2.0	2.0	2.6	4.4
C) M_{int}	55.6	64.5	77.9	73.3	71.7	72.3	71.0
III. Indices in Real Terms							
A) P_m	100.0	114.3	135.4	150.1	161.4	168.0	177.8
B) M_{kr}	100.0	62.0	52.0	65.5	64.1	61.4	66.6
C) M_{conr}	100.0	60.0	75.2	71.4	67.5	86.3	159.6
D) M_{pr} (tons)	100.0	93.2	115.6	1017	108.3	117.4	123.7
E) M_{hr}	100.0	78.7	100.6	103.3	92.9	104.5	128.2
F) M_r	100.0	77.5	106.9	108.9	100.3	100.6	110.7

Sources:

For all import data: SIS 1981,1985. For the construction of composite price index of imports (see "notes"): Price indices of unit export values of F.R.Germany, France, Italy and UK; price index of industrial goods of USA in International Financial Statistics, 1985 (IFF).

Symbols:

M: Imports, M_k: Imports of capital goods, M_{con}: Imports of consumer goods, M_{int}: Imports of intermediate goods, M_h: Imports of intermediate goods excluding crude oil and petroleum products, M_p: Imports of crude oil and petroleum products, P_m: Composite price index of imports. Subscript (r) refers to indices in real terms.

Notes:

P_m is based on weights of 0.4, 0.15, 0.15, . . 0.1 and 0.2 for imports from F.R.Germany, France, Italy, UK and USA respectively. The weighted average annual price increases of unit export values for the first four countries and of industrial goods for USA is used to construct the index P_m in row IIIA. The index numbers in rows IA, IB, IC and IE are deflated by the index numbers of row IIIA of each year and index numbers of imports in real terms for the three groups of imports in rows IIIB, IIIC, IIIE and for all imports in IIIF are thus obtained. Import volumes in tons are used to obtain index numbers for row IIID.

TABLE XIII: VOLUME AND STRUCTURE OF EXTERNAL DEBT (DISBURSED) AND DEBT SERVICE RATIOS

Years	Total Debt (Mn.$) (1)	Shares in Percentages of Short-term Debt (2)	Shares in Percentages of Private Debt (3)	Debt Service Ratio(%) (4)
1975	4724	24.4	n.a	8.1
1977	11405	57.9	n.a	19.6
1978	13794	52.0	n.a	18.1
1979	13604	26.1	32.3(1)	24.2
1980	15163	16.4	15.9	22.7
1981	15557	14.1	14.8	21.4
1982	16183	13.4	15.2	25.3
1983	16821	18.1	18.8	29.6
1984	19932	23.3	22.2	27.7

Sources:

1975-78: Gürsel 1986; 1979-1984: CB 1983,1984.

Notes:

Public debt includes private sector debts guaranteed by public authorities. Short-term debts are those with two years and less maturity periods. Debt service ratio equals annual interest and amortization payments on external debt divided by exports of goods and services. (1):Share of private debt within medium and long term debt only.

TABLE XIV: SOME MACRO-ECONOMIC INDICATORS, 1977-1984

	1977	1978	1979	1980	1981	1982	1983	1984
I. Growth Rates(1)(%)								
a. GDP(2)	4.9	4.4	-0.4	-1.0	4.7	4.3	4.1	5.8
b. Agricul.	0.4	2.7	2.8	1.7	0.0	6.3	0.0	3.8
c. Industry	13.8	6.6	-5.4	-5.6	7.4	4.5	8.0	9.1
d. Services(3)	3.3	4.0	0.2	-0.2	5.7	3.3	4.3	5.2
II. GDP per capita (index)	100.0	102.2	100.0	96.7	98.9	100.6	102.2	106.1
III. Relative sectoral price indices								
a. Industry/services	100.0	104.9	111.2	126.4	129.3	131.7	134.9	136.4
b. Agricul./services	100.0	87.0	75.1	73.6	75.3	69.0	68.2	70.1
IV. Shares in GNP (%)								
a. Savings(4)	18.0	15.9	16.2	15.9	18.0	18.2	16.5	16.6
i. Public	6.3	5.3	2.7	5.3	8.6	9.0	7.3	5.3
ii. Private	11.7	10.6	13.5	10.6	9.4	9.2	9.2	11.3
b. Investment(5)	25.6	22.4	21.7	19.7	19.3	19.0	19.0	16.7
V. Rate of Inflation(6)	24.0	52.7	63.9	107.3	36.8	25.2	30.6	52.0

Sources:

For row IV, 1977-1983, SPO 1985:23-32; for the other rows SIS 1981,1985.

Notes:

(1): In constant 1968 prices. (2): At factor cost. (3): The service sector is defined as GDP - agriculture - industry. (4): In current prices. (5): Fixed capital formation in constant 1983 prices. (6): Wholesale prices of Ministry of Commerce.
Relative sectoral prices are calculated from GDP implicit price deflators. For agriculture/industry price relations -not in this table- see Table IV, Column 2. 1984 value of Row IVb is calculated from CB 1984:99-100 changed into 1983 prices by GDP implicit price deflator for 1984.

TABLE XV: INVESTMENT TRENDS AND PATTERNS IN CONSTANT (1983) PRICES, 1977-1984

	1977	1978	1979	1980	1981	1982	1983	1984
I. Investment Indices								
a. Total	100.0	90.0	86.8	78.1	79.4	82.2	84.6	82.9
i. Public	100.0	86.4	90.8	87.0	95.2	97.3	98.9	94.6
ii. Private	100.0	93.9	83.0	68.7	62.7	66.1	69.3	70.4
b. Distribution								
i. Agriculture and mining	100.0	81.5	68.2	63.0	87.2	87.3	89.1	85.4
ii. Manufacturing	100.0	86.8	77.6	76.5	72.0	65.6	64.8	59.8
(Public)	100.0	81.7	101.0	110.8	101.4	85.2	82.4	71.4
(Private)	100.0	90.3	61.6	52.9	51.9	52.1	52.7	51.9
iii. Infrastructure(1)	100.0	89.5	95.7	83.3	91.0	103.3	112.1	110.2
iv. Housing	100.0	112.9	122.9	100.6	69.5	70.5	73.8	74.2
v. Education and health	100.0	90.2	70.0	67.2	84.2	98.8	83.5	79.0
vi. Other services	100.0	78.4	66.7	59.2	66.7	73.4	72.1	84.4
II. Shares in Total Investment(%)								
a. Public vs. Private								
i. Public	51.6	49.5	53.7	57.4	61.8	61.0	60.3	58.9
ii. Private	48.4	50.5	46.3	42.6	38.2	39.0	39.7	41.1
b. By Sectors								
i. Agriculture and mining	16.0	14.4	12.5	12.9	17.6	16.9	16.8	16.5
ii. Manufacturing	29.6	28.5	26.4	28.9	26.8	23.6	22.7	21.3
(Public)	(12.0)	(10.9)	(14.0)	(17.1)	(15.3)	(12.5)	(11.7)	(10.4)
iii. Infrastr.	28.1	28.0	31.0	30.0	32.2	35.3	37.3	37.4
iv. Housing	14.8	18.6	21.1	19.1	13.0	12.8	13.0	13.3
v. Educ.&health	3.5	3.5	2.8	3.0	3.7	4.2	3.4	3.3
vi. Other serv.	8.0	7.0	6.2	6.1	6.7	7.2	6.8	8.2

Sources:

Same as Table XIV.

Notes:

(1): Energy, communication and transportation. For the calculation of 1984 figures, see "notes" to Table XIV.

TABLE XVI: PUBLIC SECTOR ACCOUNTS, 1977-1984 (% of GNP)

	1977	1978	1979	1980	1981	1982	1983	1984
Public Disposable Revenue	21.3	18.7	16.0	17.4	19.3	19.7	17.5	14.3
-Taxes	20.2	19.7	19.2	17.3	18.8	18.2	17.1	14.6
-Surplus of Parastatals & soc.sec.	3.2	1.2	-0.9	1.6	2.8	3.3	3.2	3.8
-Others(1)	-2.1	-2.2	-2.3	-1.5	-2.3	-1.8	-2.8	-4.1
Public Expenditures	26.4	22.9	22.9	23.8	23.9	22.8	21.6	19.5
-Public Inv.(2)	13.1	9.5	9.5	11.5	13.2	12.0	11.5	10.5
-Public Consumption	13.3	13.4	13.4	12.3	10.7	10.8	10.1	9.0
Public Sector Deficit	5.1	4.2	6.9	6.4	4.6	3.1	4.1	5.2

(1) Non-tax normal revenues net of current transfers and external interest payments;
(2) Including stock movements.

Sources:

For public investment and public consumption, same as Table XIV, for public revenues, Turel 1985.

TABLE XIVA: AGGREGATE DEMAND BY CATEGORIES OF EXPENDITURE, 1977-1984

	1977	1978	1979	1980	1981	1982	1983	1984
I. Growth Rates(1)								
a. Private Inv.(2)	-1.5	-6.1	-11.6	-17.3	-8.7	5.5	4.8	1.6
B. Public Inv.(2)	11.0	-13.6	4.6	-3.7	9.4	2.2	1.7	-4.3
c. Private Con.	5.9	-1.9	-3.5	-4.9	0.6	4.2	4.7	4.0
d. Public Con.	3.7	9.4	1.8	8.4	0.9	2.0	1.3	2.9
e. External Deficit(3)	47.1	-58.1	-17.2	73.7	-36.1	-43.2	91.6	-10.6
II. Shares in GNP(%)(4)								
a. Private Inv.	11.8	11.1	9.7	8.5	7.2	7.3	7.5	7.5
b. Public Inv.	12.4	10.6	10.7	10.9	11.7	11.5	11.4	10.8
c. Stock Change	0.8	-2.9	-2.1	1.8	2.5	1.5	1.7	1.9
d. Private Con.	68.6	70.8	70.5	71.9	71.3	71.1	73.4	74.4
e. Public Con.	13.3	13.4	13.4	12.3	10.7	10.8	10.1	9.0
f. External Deficit	6.9	2.6	2.1	5.5	3.5	2.2	4.1	3.5

(1) In 1983 prices;
(2) Excluding stock movements;
(3) In U.S. dollars;
(4) Current price.

Sources:

Ia-Id for 1976-1983 and IIa-IIf for 1976-1984 same as Table XIV.
Ie on the basis of current account deficit in Table IX. For 1984 of Ia-Id, calculations based on SPO, Fifth Five Year Development Plan, Ankara 1985