

Development in Mixed Economies

By

Coskun Urunlu

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I. INTRODUCTION

In modern history the most significant change in politico-economic thought occurred when public opinion began to be interested in the welfare of the poor. The origin of this interest sprang not only from the progressive process of the humanistic philosophies but also from the fact that those leaders who were responsible for public thinking did much to foster such interest. The result of these forces was the creation of self-consciousness on the part of the masses about their material welfare. However, the desire to obtain a better way of life did not bring with it the necessary tools for achieving this aim. The lack of capability or objectivity on the part of the leaders in choosing the best tools, the prevailing traditional conditions and the strict attachment of the people to the old customs, and finally the shortage of the undogmatic theoretical observations, jointly caused the confusion in comparing and choosing the tools which were so necessary in achieving a better way of life.

This chaotic situation still exists today. Although the large population groups in Asia, Africa, Middle East, and Latin America carry a common objective (namely to achieve economic development) they differ sharply in their choice of

roads to this end. Preconceptions and subjective beliefs obscure the horizons of those responsible in selecting the most sound and promising route. On the other hand, this newly born aim, economic development, caused the neglect of other values of Western civilization. Material welfare became more important and the sole aim of all efforts and issues of freedom and human rights were pushed into secondary importance. A higher economic rate of growth became accepted as justification for such great sacrifices in human values.

Being a student from an underdeveloped country, my sole objective has been to find out some sort of promising model for economic development. My studies and researches on economic systems always centered around this single objective. My previous researches on this subject and my practical knowledge about the conditions of an underdeveloped country, Turkey, led me to the understanding that the most promising way to achieve successful development is through a mixed economy. For these reasons, the test of the reliability of this understanding gained, in time, special importance and caused me to choose this subject as the topic of my thesis.

II. SCOPE OF THE STUDY

In the analysis of the topic, the "case study method" will be employed as the method of approach. Before testing the main hypothesis by this method, however, I shall touch upon the main theoretical views concerning the topic. In this part of the analysis, John Maynard Keynes' policy proposals will be our main interest due to special importance of his views in modern economics. However, Keynes' views, due to their subjectivity, cannot be relied upon entirely; they too have to be tested. Such a test will be made by studying the British experience between 1945-1950. The conclusion of this test, I believe, will enable me to have a useful tool in my further analysis.

After stating my hypothesis I shall describe definitions and assumptions to a great extent. By doing so, I believe, the test of the reliability of my hypothesis and the conclusions derived will be more meaningful.

During the testing of the hypothesis the economic development processes of two underdeveloped countries will be employed. These countries are Turkey and Yugoslavia. The reason for selecting Turkey is not only connected with my personal experience in that country but is also related to the fact that she was one of the first countries in modern history

to achieve a remarkable economic development through statism. Yugoslavia is chosen for two reasons: The first is the fact that this country changed its socio-economic structure from communism to a mixed economy model; secondly, it is sometimes suggested in theory that her new socio-economic structure is a promising model for the future.

In the analysis of the Turkish economic development process the statistical approach will be employed, and in the analysis of the Yugoslav experience a descriptive method will be used. These different ways of approach are chosen because the Turkish experience covers more than forty years and the clear-cut results of such a length of time will be more meaningful in statistical terms than the ten years experience of Yugoslav case. Moreover, Yugoslavia first adopted physical planning and later abandoned it; the reason for this change has a special importance for our purposes. Lastly, it is my belief that analyzing these two systems from two different angles will result in more revealing and meaningful conclusions in the interpretation of my mixed-economy model.

The last part of the study will present the conclusions arrived at by testing our hypothesis, conclusions deduced from the functioning process of these two models.

III. THEORETICAL BACKGROUND

The long survival of the "invisible hand" belief can be attributed not only to a deep-rooted attachment to it but also to the fact that it had been so successful in operation: carrying out the industrial revolution in a number of countries, enormously raising the productivity of the factors of production, and increasing the welfare of the societies involved. However, successful operation of the laissez-faire market economy could not prevent serious questions from rising about its validity. At the end of the 19th century many average people began to doubt this system and reorient their attitudes regarding the desirability of unchecked free enterprise. Abuses associated with the rise of big business and exploitative business practices by certain operators provided convincing evidence that unbridled individualism was failing to maximize social welfare. Instead of the basic harmony of interests, assumed by the laissez-faire doctrine, the uncoordinated self-seeking of millions of individuals frequently led to frustrating conflicts of interests, to human exploitation and misery, and to something far less than true social welfare. Especially after the 1929 world economic crisis, this type of economy in its classic form began to lose favor in the eyes of the people. The final powerful argument against the system came

with the Keynesian revolution. When Keynes attacked "the outstanding faults of the economic society in which we live,"¹ it was clearly realized that the capitalistic social system in its classical manifestation belonged to the past.² The failure of the capitalistic system to provide full employment and equitable income distribution was, according to Keynes, the main sickness of the system. The existence of such an intolerable disease in capitalistic societies, he argued, is related to "capitalistic individualism."³ His solution lay in a certain modification of the laissez-faire market economy's functioning process, and did not include any tampering ownership. According to him, the ownership of the means of production was not important; the main point at issue was the "somewhat comprehensive socialization of investment."⁴ If this socialization, moreover, is introduced gradually and without a break in the general tradition of the society and included "all manner of compromises and of devices by which public authority will cooperate with the private initiative," the socialization of investment will be proved as "the only

¹J. M. Keynes, The General Theory of Employment, Interest and Money, London, 1961, 372.

²However, there are some among the economists of our time who still advocate the laissez-faire economy.

³Keynes, op. cit., 381.

⁴Ibid., 378.

means of securing an approximation to full employment," while "preserving efficiency and freedom."

The main problem according to him was the deficiency in effective demand, and for this reason the government would have to be responsible "in the task of adjusting to one another the propensity to consume and the inducement to invest,"¹ through a somewhat comprehensive socialization of investment. Keynes favored private property, but by socializing part of the decision-making process he created a special type mixed-economy model. However, his type of mixed-economy model is neither directly related to the conditions of an underdeveloped country nor shows the necessary ways in achieving a higher rate of growth. Nevertheless, as we shall later see, it does give many useful insights to the problems of an economy.

Keynes was very influential not only in modifying economic thought but also in altering the decision-making process of several countries, especially England's.

A new era in England's economic history began when the English electorate, under the concept of "evolutionary socialism," empowered the Labor Party to rule the British Commonwealth. The Labor government's assumption of office in August 1945 marked the beginning of a five year period of intensive economic change. This change sprang from a conviction that

¹Ibid., 360.

socialism requires the public ownership of the means of production.¹ However, this belief (under the influence of Keynesian economics)² has been modified by the thought that "the elimination of private ownership was a surgical operation which had become necessary to save the life of a patient. But the removal of a diseased organ is not by itself, necessarily sufficient to restore a sick patient to health."³

The old socialist belief that socialization requires the public ownership of the means of production and the new Keynesian suggestion that stable functioning economy without unemployment does not necessarily demand such socialization (of the means of the production) left the British public opinion in a somewhat indecisive position. The program of the Labor Party, aimed at the nationalization of the means of the production, began to be questioned seriously. The Labor Party officially tried to justify the reasons for its nationalization. Its reasons are related to the practical aspects of the economy rather than to theoretical convictions. According to the official view, nationalization practices would be extended where public benefits were at stake. For

¹W. A. Robson, Nationalized Industry and Public Ownership, London, 1960, 42.

²For Keynesian influence see P. A. Homan, "Socialist Thought in Great Britain," American Economic Review, June, 1957.

³Robson, op. cit., 32.

example, certain industries which are by nature monopolistic will be nationalized in order to protect the public from the possible exploitation by private owners of these industries. Moreover, the boundaries of this "diseased organ," (privately owned means of production), became narrowed. The concept of public ownership began to be applied only to the basic means of production and to services on which the economic life and welfare of the community depended. Public ownership came to be a way of dealing with industries in which inefficiency persists and where the private owners lack either the will or the capacity to make improvements.

Although part of the basic means of production and services became publicly owned, their administrative structure differed from the typical government departments: They became businesslike enterprises; the government would not interfere in their affairs concerning day-to-day management. Parliamentary supervision on management and Treasury control over personnel and finance were regarded as hampering the efficiency and restricting the initiative of the commercial character of the enterprises; such organizations have to be flexible in their conduct of business activities. However, this flexibility was limited when considerations of national interest came into the picture. Ministers were given specific rights to approve development programs involving substantial capital outlays; they

were responsible to the Parliament only for their general policy, but not for the particular points of their service. Even today Ministers may choose not to answer to the questions of the members of the Parliament concerning day-to-day matters.

The finances of these public corporations are divorced from the national budget, and they have self-contained finance.

Nationalization of basic means of production is, in Great Britain, the final stage in a long development of industrial organization. These public enterprises indirectly help the stabilisation and further growth of the economy. In an underdeveloped country, on the other hand, the formation of the public enterprises is the first step towards starting an industrial society; these enterprises, moreover, directly help to construct the basic infrastructural investments in the country. The problems and the structural basis of an underdeveloped country differs sharply from England (i.e., an advanced economy). However, the British experience in nationalization practice affords us excellent pragmatic lessons; lessons which could not be derived from an underdeveloped economy. (Lack of statistical data is by no means the least important consideration.)

As a conclusion I may state that Keynesian proposals and the British experience in nationalization offer good justification for the enlargement of the function of the "visible hand."

Turning from this particular example of a mixed-economy, let us begin to construct the hypothesis and form the assumptions about our special type mixed-economy.

IV. HYPOTHESIS

The hypothesis which will be employed and tested throughout the study is that In an Underdeveloped Country the Most Promising Way of Achieving Economic Development with Stability is by Means of a Mixed-Economy Model.

In order to be able to employ this hypothesis in our further analysis and in order to test it successfully it is necessary to define its components. Moreover, it is necessary to clarify additional assumptions and describe the limitations of the hypothesis to achieve a better understanding of our research process. Therefore we shall next discuss our definitions, assumptions, and limitations extensively.

V. DEFINITIONS AND ASSUMPTIONS

An Underdeveloped Country

By an underdeveloped country we mean a country "with a per capita product so low that material deprivation is widespread and reserves for emergency and growth are small."¹ More precisely, in underdeveloped countries, contrary to the developed countries, per capita income is much lower, a high level of underemployment and disguised unemployment exist, the population increases at a very high rate, the allocation of resources may be no reflection of comparative advantage,² productivity is lower, further expansion of international trade (especially free) may hinder further development,³ investment and savings decisions are not independent but interdependent,⁴ the market provides very limited guidance in allocating resources so as to maximize

¹ S. Kuznets, "Present Underdeveloped Countries and Past Growth Patterns," in E. Nelson, Economic Growth, Austin, Texas 1960, 17.

² B. Higgins, "Elements in a Theory of Underdevelopment", in Nelson, op. cit., 63.

³ C.F. Kindleberger, Economic Development, New York, 1958, 246-251.

⁴ A.O. Hirschman, The Strategy of Economic Development, New Haven, 1958, 32.

the degree of development,¹ and a development plan has vital importance.²

Although problems differ from one underdeveloped country to another, the main characteristics of these problems remains the same: In these countries primary production, leaving aside the perishable goods production, is agricultural staples. The individual peasant cultivates such a tiny plot of land that after meeting his needs and obligations he has little or no crop to dispose of on the market. His main obligation is to supply his landlord upon previously determined basis or upon the existing traditions in that area. In general, landlord and individual peasant share the crop, and the landlord's share of the crop usually accounts for seventy to one hundred percent of the peasant's output.³ Because of this situation, marketed crop is generally disposed of by large landlords. On the other hand, these same owners of land save very little and spend a great deal.⁴ According to Kaldor's figures, the

¹Higgins, op cit., 64.

²E.S. Mason, Economic Planning of Underdeveloped Areas, New York, 1958, 40-41.

³R.M. Solomon, "The Structure of the Market in Underdeveloped Economies", The Quarterly Journal of Economics, Vol LXII, August, 1948.

⁴N. Kaldor, "Will Underdeveloped Countries Learn to Tax?" Foreign Affairs, January 1963, Vol 41, No. 2, 411.

consumption of property owners was over twenty percent of the G.N.P. of Chile, some years ago.¹ Moreover, hoarding is accepted as a "security means" to finance the ceremonial expenditure necessary for status.² Distrust in existing banks, and failure (through ignorance) to invest create rather important obstacles for further capital accumulation.

Due to the extremely small size of land holdings, in these societies, modernization of the plots is almost impossible. Individually no one can afford to have a harvester or a tractor; and even if we suppose that there were some possibility of obtaining one (for example provided by the government), the tiny plot which each family holds could not utilize it fully. On the other hand, landlords are generally against the idea that replacement of labor force by machinery could be more productive in the future. This lack of foresight and the desire for short term security prevents them from modernizing their production process. The lack of entrepreneurship in these countries is more acute in the agriculture sector of the economy than in industry.

In these societies, low labor efficiency, factor immobility, ignorance, and underutilized or misutilized economic resources are the main problems to be solved. Moreover, extremely small capital stock, a very low current

¹ Ibid.

² H. Belshaw, "Some Aspects of Economic Development in Underdeveloped Countries in Asia," in L.W. Shannon, (Edi.), Underdeveloped Areas, New York 1957, 192.

rate of capital accumulation, and the direction of the investment create especially serious problems. Since real income is very low, there is little demand for products from the manufacturing industry. Domestic demand confined mainly to light consumer goods industries. Therefore these countries have tended to invest in light, labor intensive consumer goods industries rather than in the heavier, capital intensive producer goods industries. The low rate of savings leaves these underdeveloped countries with the urgent need of necessary capital to finance their investments. A main assumption in theory is that a favorable balance of foreign trade should be obtained in order to acquire necessary capital or promote further expansion of the investment activities. But a depression abroad may reduce the demand for the underdeveloped country's exports,¹ and, being primary products, these exports may suffer large price and value declines.² Moreover, an unfavorable change in the weather conditions may easily bring reduction in the volume of exports.³

The obstacles to the development of an underdeveloped country can be grouped into three categories:⁴ 1) non-optimal

¹ For example, Russian experience during the 1930's.

² Hanson calls the dependence of an underdeveloped country on the export of a small range of primary commodities "a source of economic weakness." A.H. Hanson, Public Enterprise and Economic Development, London, 1960, 57.

³ For example, Turkish Experience between 1955-1957.

⁴ M. Meier and R.E. Baldwin, Economic Development: Theory, History, Policy, New York, 1959, 316-333.

to lack of an adequate capital stock and secondarily to market imperfections. The low level of capital stock is, in turn, a result of the low level of real income. Thus, deficiency of developed resources and low productivity constitute the basis of the vicious circles.

The third obstacle to the development of an underdeveloped country is international forces. Theoretical arguments on this point are from two extremes. According to classical and/or neo-classical economists, international trade enables every country to specialize and to export those things that it can produce most efficiently in exchange for what others can provide at a lower cost. There is a comparative advantage between two countries which generally arise from differences in factor endowments in the two countries. Each country can produce a commodity to export in high proportion because of the abundance of possessed factors.¹ A country, then can maximize its real income by specialization along lines of comparative advantage. Hence, "if trade raises the level of income, it also promotes economic development."² On the other hand, Neo-Marxists argue that "most of these [underdeveloped countries] have a very high foreign trade ratio, in relation to their national product or income. Contrary to the teachings of classical theory however, this high foreign trade ratio is not a healthy sign of their

¹Kindleberger, op. cit., 238.

²Haberler, G. International Trade and Economic Development, Cairo, 1958, 6.

vigorous exploitation of the economic advantages of an international division of labor,"¹ and "trade operates with a fundamental bias in favor of the richer and progressive regions and disfavor of other regions. [i.e., underdeveloped countries] and that by itself freer trade would even tend to perpetuate stagnation in the underdeveloped regions and countries."² Leaving these theoretical discussions aside, we would remind the reader that development through foreign trade is not always the way out of the problems of an underdeveloped country.³

In addition to these three considerations the social structures of these countries are not very stable due to economic backwardness. In general, individuals in an underdeveloped country strive toward success symbols (e.g. wealth) through conventional channels. However, success in this drive is limited for the majority due to little formal education and few economic resources. This situation creates extreme pressure on these people. However, the channels of vertical mobility in underdeveloped societies are closed or largely narrowed. This situation creates unstable social structure. On one hand, the majority of the people are asked to orient their conduct toward the prospect of accumulating wealth, on the other hand, they are largely denied effective

¹ G. Myrdal, An International Economy, New York, 1956, 225-6.

² As quoted in Haberler, op. cit. 18.

³ See examples, 15-16.

opportunities to do so. This structural inconsistency creates anti-social conducts or revolutionary activities. Moreover, in these countries there is a tremendous gap between the masses and the administrators. Economic development demands a moral climate in society, mutual trust among its members, and voluntary sacrifice from its members. Without the existence of an idealistic philosophy as a unifying force (e.g., nationalism) and in the absence of a belief in mutual trust and sacrifice for the common cause (i.e., for economic development) among politicians, workers, intellectuals -- in short, among the people -- it is almost impossible to achieve the necessary climate for economic development. For this reason, the role of leadership in an underdeveloped country is far more important than in developed countries.

STABILITY

The main objectives of economic stability are to avoid mass unemployment and to prevent violent short-term movements in the general level of prices. In other words, full employment and stability of price levels are the necessary components in the concept of stability. However, the reconciliation of full employment with price level stability within a free-enterprise framework is far from being achieved. For this reason it is necessary that a government's attempt should be made to formulate rules of responsible private behavior for organized groups, and to secure the voluntary acceptance by these groups of such rules in order that such a reconciliation might be achieved.

MIXED-ECONOMY

Our model of mixed-economy consists of the following elements:

1. Plan.

The development of an underdeveloped country must be organized and planned. As a matter of fact, the vital importance of a plan is no longer debatable.¹ Planning as "an institutionalized, previously quantified, rationalized process of economic development over a definite period of time,"² will enable the government to detect the country's resources, possibilities and potentialities. Within the framework of the chosen plan, the government will initiate the necessary investment activities and seek to influence the market by a series of indirect controls (in order to approach the planned targets). Control of interest rates and taxes with broad regulations dealing with prices, wages and foreign trade will make possible to save the economy from stagnation and will provide a useful means to reaching the high rate of growth.

Such a plan on the other hand, will not be similar to

¹B. Ward, "Yugoslavia," in Papelasis, A., et al., Economic Development, New York, 1961, 561 (n.83).

²R. Bicanic, "Economic Growth, Development, and Planning in Socialist Countries," in Nelson, op. cit. 174.

the plans applied in command economies; it does not involve elaborate controls and restrictions such as firm by firm production targets. In our mixed-economy model development planning implies that the percentage of the national product to be channeled into savings will be determined by the central authority and that the realization of such savings will be achieved through the market mechanism.

2. Agricultural Sector

The agricultural sector will be privately owned and operated. For this reason we will not discuss it extensively.

3. Industrial Sector

State ownership of basic industries (such as coal, iron-steel), and public utilities (such as water, power, port installations, communication and transportation) is the main distinctive characteristic of our model. There are several reasons for this kind of ownership. According to John Stuart Mill, one of the dangerous causes of the slowing down in capital accumulation is improper estimation of the future benefit with the present sacrifice, which in turn, causes less saving and hence less accumulation.¹ In other words, due to errors of foresight, "investment cannot be left to the market alone"² in underdeveloped countries. The industries owned by the government will create necessary

¹J.S. Mill, Principles of Political Economy, New York, 1886, Book I, Chp. VIII 120-124.

²Higgins, op. cit., 65-66.

supplementary investments in the economy when market investment lags behind the necessary rate in approximating the planned targets.

There are some types of vital industries (e.g., coal) such that the industry's outcome could not be effectively realized by piecemeal investment process. In order to be able to take benefits from "external economies", simultaneous expansion of these vital industries is necessary. Inadequate investment by private firms causes wasteful operation, which an underdeveloped country cannot afford. Moreover, the government enterprises will make necessary investment for needed expansion without hesitation.

There are several bottlenecks in the industrial sector of underdeveloped countries: the shortage of skilled labor, the lack of necessary raw materials, the unavailability of necessary equipment and machinery, the limited demand for capital goods in domestic market, etc., all make it very difficult for private entrepreneur to operate successfully. For example, the public demand, in these societies, is always toward the products of light industry (as we have said earlier). For this reason, a private entrepreneur reluctantly invests in the production of capital goods. The government has to initiate the production of these kinds of goods through its own factories. For the private entrepreneur the most important of these bottleneck is the shortage of skilled labor. Research, as well as the proper training of personnel, requires a staff of experts which the smaller firms cannot afford to buy.

or train.¹ In these fields, the government agencies are in a more favorable position, not only because they are able to hire more qualified experts or workers at higher salaries, but also because they are easily able to support their education or training expenses, even if such education and training takes place in other more developed countries.

The modern technological prerequisites for industrial production in some industries (e.g., Iron-Steel) demand a tremendous capital outlay. Private firms without becoming merged enterprises, cannot obtain necessary investment funds either for operation expenses or for further investment.² These private enterprises are not capable of continuing their production process without exploiting the society both by curbing output and by increasing prices. It is true, however, that in underdeveloped countries the construction of optimum-size plants is rather likely to lead to monopoly. But the profit or loss considerations of an individual public enterprise are relatively minor considerations compared to the overall benefits to be gained by society as a whole.

Moreover, efficiency and low cost require standardization within the industry, to produce a few designs that will sell in large quantities and permit mass production on specialized machines. This fact by itself invites more government enterprises into the sphere of production of capital goods.

¹P. S. Florence, Industry and the State, London, 1957, 101-103.

²Ibid.

In underdeveloped countries large scale enterpreneurial ability is almost non-existent; the government must assume the functions of the able entrepreneur in the industrial sector of the economy. It is conceivable that management of firms by a bureaucracy may not be so productive as the private management found in the advanced economies; but there is no spare time in these societies to wait for the growth of the enterpreneurial class to handle management efficiently.¹ As a matter of fact, in today's advanced countries, as modern businesses became larger, the small salaried intelligentsia took over the management of the enterprises; there is always a possibility that the main interests of the top managers of many private firms are not always in accordance with those of society.²

In underdeveloped countries the managers of publicly owned firms have no other alternative but to follow the interests of the society very closely.

Due to today's concept of distributive justice, big income differences are no longer permissible. However, in underdeveloped countries unless new enterprises are allowed to make large enough profits, they may not be able to start new industries (especially basic industries) and expand them. The need to enlarge the profit margins of private enterprises in order to enable them to initiate greater investments in this sphere is strongly challenged by public opinion, since

¹ Our special considerations about management will be given later.

² Florence, op cit. 101-102.

support of large profit margins can only come about at the expense of the rest of the society. Even if the government decides to increase profits of the private firms by subsidies, favorable treatment in taxation or government purchases, tariffs and import restrictions control over wages or trade unionism, favorable exchange rates for raw materials and equipment requirements, or by allowing them to initiate an inflation, the result may not be so encouraging. Since, for instance, public utility sector such as water, power, port installations, communication and transportation are not profitable for private firms at all, they shall not be willing to invest in this sector (which is extremely vital for the society's future welfare). For this reason, the interest of private firms will lie in more promising areas and their demands from the government concerning the enlargement of their profit margins will be directed to the other sectors of the industry. However, "there is no clear evidence from experience that the investment policy which is socially advantageous coincides with that which is most profitable."¹ For this reason any action by the government toward the enlargement of the profit margin of private enterprise is unjustifiable.

To achieve simultaneous expansion of investment, to obtain a high rate of capital formation, to increase efficiency and productivity, to create and prepare necessary conditions for private firms to enter into the market, government

¹ Keynes, op. cit., 154.

ownership of the basic means of production is extremely necessary in underdeveloped countries. Moreover, these basic industries are infrastructural investments -- the leading investment activities for further progress and only the possible means to break the "vicious circles" in which underdeveloped countries are caught. In short, to initiate and continue the development of an underdeveloped country, the extensive use of public enterprise is the most promising alternative.

4. Consumer Sovereignty

Consumer sovereignty in our model is not abolished; but due to the above mentioned industrial considerations (Section 3), the rate of saving and the direction of investment by government agencies are in the hands of a central authority.

5. Management of the State Agencies

In England, change of ownership in industries did not change the basic relationship between the workers and the management; according to Mr. Robson, this was mainly due to the previous distrust for private management by the workers.¹ For example, the propensity to strike unofficially continued to be high. The strikes in some coal mines "have consistently been responsible for over eighty percent

¹
Robson, op. cit., 330-332.

of the loss of output each year."¹ Although educational programs, training facilities and joint consultations practices were increased by the government, the outcome was not encouraging; governmental management brought about no change in management-worker relations. This experience leads to one of our basic assumptions: management of the government establishments must be delegated to "workers' councils" under the supervision of the government. There are several reasons for such councils: first, the government will be prevented from becoming itself a giant monopoly and exploiting its workers. Second, the aim of the worker will be "income maximization" which in turn will bring about an increase in efficiency and productivity. Third, the personal initiative (which is very important in achieving successful operation in the economy) of the agents of production (i.e., the workers) will be encouraged and directed towards the most desirable outcome -- economic development. Fourth, selfishness will tend to be replaced by altruistic considerations on the part of the workers. Fifth, inequality in income distribution will be narrowed. Sixth, governmental guidance over the councils will enable the government to control the direction of investment by its firms and check the demand for higher wage increases, in the event that such demands develop.

Now let us turn to our case studies, to test the reliability and validity of our hypothesis and assumptions.

¹
Ibid.

VI. CASE STUDIES
TURKEY AND YUGOSLAVIA

TURKEY

I. Economic Change in Turkey, 1920-1962

Turkey has obtained her position as a modern country in the European community and has broken up her medieval structure by adapting the policy etatism. Etatism (statism) in Turkish has a broader meaning. Devletcilik, statism, is literally translated as "actively being for the state." When this policy was first formulated, statism was used to describe the idea that the state would take charge of that part of the economy which private enterprise was not able to operate or which private enterprise could not operate profitably. Today the definition of this concept has been drastically altered. According to the new interpretation, the state will leave alone that part of the economy which is too small for it to operate.

In our analysis of this type of mixed economy, the emphasis falls on comparative study of the state and private enterprise and their share in the economy as a whole, together with the historical progress in this framework. Of necessity, the socio-political setting, changing with the passage of time, has been sketched in. Only in this manner would the sequence of events, including those of the economic order, be intelligible.

Modern Turkey is the product of a unique revolution which took place immediately after the first World War. The

revolution, which was led by Mustafa Kemal Ataturk, was externally a war against foreign conquest, while internally it was a radical attack against the existing political, social and economic conditions. At the end of the first World War the Ottoman Empire was defeated and the country was occupied by the allied powers. Turkey fought against this occupation, and, due to her victory over the allies and Greeks, the Western powers were forced to recognize Turkey as a sovereign nation at the treaty of Lausanne (July, 1923). This treaty was not only a symbol of political success but was also a symbol of her economic independence from the foreign powers. In October 1923 the Turkish state was declared a republic headed by Ataturk. The government faced the great task of reconstructing the country which had been ravaged by war. As soon as the new government was free to direct its attention to internal reconstruction it acted on economic affairs: eighty-five per cent of the population was engaged in agriculture, but primitive methods were being employed and living conditions were poor and backward. Industry, in the modern sense, was virtually nonexistent. The balance of trade showed a large deficit until 1930. The socio-psychological structure of the Turkish society was creating rather important obstacles to economic development; commerce and industry were regarded as degrading and were left to minorities--Greeks and Armenians. After the Lausanne treaty, the number of minorities decreased, leaving Turkey in the hands of a few skilled businessmen. The public

distrusted foreign investors as a result of the Turkish experience with the system of "Capitulations", which (before being abolished) embodied special privileges for foreign citizens in Turkey.

Under the foregoing conditions the government wanted to achieve economic development relying on private enterprise, but the 1929 world economic depression and the urgent needs of the country caused this policy to be dropped and opened a new phase in Turkey's economic system. The state began to purchase foreign owned railroads and began to build new lines itself. The government assumed the task of creating the key industries, which, during the beginning years of the Republic, private capital and initiative had been unable to organize.¹ In 1930, the ruling Republican party accepted a new program, summarized by six principles: nationalism, populism, statism, laicism, reformism, and republicanism. The main spring of these principles lay the urgent needs of the country. Long before initiation of this program, Ataturk (speaking in Ankara on December 1, 1921) declared his politico-economic views: the Turkish government can sociologically be called "people's government." We are the men who have to struggle in order to preserve our independence. We have to struggle "as a whole nation against the imperialism that seeks to crush, and capitalism that seeks to swallow our very nationhood . . ."2

¹ M. W. Thornburg, Turkey. An Economic Appraisal, New York, 1949, 29.

² B. Lewis, The Emergence Of Modern Turkey, Oxford Univ. Press 1961, 458-459.

Due to application of the principle of statism, the government's activities began to be more and more extensive in the economic sphere. The philosophy of statism was even incorporated into the constitution. However, this new statist policy does not seem to have been inspired by any ideological trends or to have been due directly to any external theoretical influences.¹ At the beginning, statism, was not a well entrenched theory in Turkey, but it was accepted as a practical necessity, and it was shaped considerably by her socio-economic situation. The main target in the economy was the creation of a self sufficient country. Economic and political independence could be secured through self-sufficiency. But self-sufficiency would require a very rapid rate of industrialization. Because of this, "state intervention became inevitable."² This inevitability had been supported by several other factors: capital was scarce; entrepreneurs were very limited in number; foreign capital and foreign goods were considered as threats to national independence; and state assistance to private enterprise did not prove satisfactory.

In order to make this new system understandable to the public, the state gave its full support (financial as well as political) to a new periodical, Kadro-(Cadre). This periodical's ideological structure was the result

¹ Ibid, 463.

² R.W. Kerwin, "Etatism In Turkey, 1933-1959" in H.J. Aitken, The State and Economic Growth, New York, 1959, 240.

of a combination of Marxism, nationalism, and corporatism. Turkey, according to their analysis, "had no accumulated capital and therefore no class struggle, thus it was the duty of the state to accumulate and utilize capital, and thus forestall the emergence of a class struggle."¹ However, Cadre died as a result of the suspicion of communism which it aroused discussing the social classes, and in analyzing Turkey's economic and social problems from a socio-political viewpoint.² Nevertheless, its revolutionary philosophy on the "method of change" remained as the philosophy of the Republican Party. The acceptance of this philosophy as the party's own was partially the result of the Soviet influence. As a matter of fact, new modern Turkey and Communist Russia found themselves united against the same enemy -- Great Britain -- during the 20's. Mustafa Kemal, in a letter addressed to Lenin on April 26, 1920, declared his readiness to fight foreign imperialism and sought to conclude a military and political alliance with Moscow.³ This was the crucial point during which many Turkish intellectuals began to set high hopes in Bolshevism.⁴ Until 1935, the relations between Turkey and

¹ Lewis, Op. Cit., 463 and K. Karpat, Turkey's Politics, New Jersey, 1959, 71.

² Karpat, Ibid.

³ Fischer, L., The Soviets In World Affairs, Vol. 1, Princeton, 1951, 390-391.

⁴ D.A. Rustow, Politics and Westernization In The Near East, Princeton, 1956, 12.

Soviet Russia were always very friendly and communist philosophy extremely influential. The Turkish intellectuals and the officials of the ruling political party were favoring the philosophy of forceful change. According to these people, necessary reforms could only be carried out by coercion and force;¹ the necessary decisions being taken and carried out by an "elite." These movements were not challenged by Mustafa Kemal. Although his own movement was nationalistic and wanted to grow in the spirit of the French Revolution of 1789,² and although Kemal himself favored "gradual change" in the society,³ he tried not to offend the Russians, and not to lose any economic and military aid from the Soviet Union. However, he never lost a moment in creating conditions which would decrease the communist influence on Turkish people. For example, in order to please the Soviets, and to control communist activities in Turkey, he himself "ordered in secret the establishment of a communist party by some of his close associates, such as Refik Bey (chairman of the national assembly between 1950 and 1960), Celal Bey (president of Turkey between 1950 and 1960) . . . , numbering altogether not more than twenty people who worked in close association with the government."⁴ However, soon the party was denounced by the Soviets as the

¹ Peker, Inkilap Dersleri, Ankara, 1936, 8-10 as quoted in Karpas, Op. Cit. 72-73.

² Thornburg, Op. Cit. 26-27, 38-39.

³ Karpas, Loc. Cit.

⁴ T.Z. Tunaya, Turkiyede Siyasi Partiler, (Political Parties in Turkey), Istanbul 1952, 531.

"creation of some Turkish pashas who intended to deceive the toiling masses."¹ Mustafa Kemal finally found an opportunity to crush communism in Turkey in 1935. In this year the Soviets began to support the attempt to establish a strong communist party in Turkey. Mustafa Kemal faced a dilemma; his own philosophy and the wide spread Turkish belief² and hatred toward Russia was forcing him to take a clear cut position toward toward communism in Turkey. On the other hand, Russian political and economic support was vital, and the destruction of communist activities in Turkey might cause the deterioration of mutual relations and the cessation of economic aid. The final decision of Ataturk was against communism. Persecution of the communists inside Turkey took place and the mutual friendship with the Russian Government ceased.³ As a matter of fact, deterioration of the relations with the Russian Government caused little harm since Turkey's first five year plan had by then been launched and the deficit of foreign trade had been balanced.

¹W.Z. Laquer, Communism and Nationalism In the Middle East, New York, 1956, 208, as quoted in Karpas, Op. Cit. 355.

²Most Turks held a belief that whatever the political regime and philosophy of Russia may be, she could not escape from geographical determinism, which would inevitably bring her into conflict with Turkey, and that the imperialist ambitions of Czarist Russia, had only been redressed by communist dogmas and she still would follow the policy of Czar Peter the Great.

³There is a big issue in Turkey about the Ataturk's communism, even today. According to Turkish leftists Ataturk was a communist leader. On the other hand, those on the right claim that he was almost a fascist leader. The main conflict, in our opinion, arises from the fact that until 1935 Ataturk was very friendly with the Soviets and afterwards he was a bitter enemy of communists and Russians alike. Ataturk had never been a communist. He was greatly influenced by J.J. Rousseau, and his policies were always colored by the necessities of the day.

In 1929 Turkey's industrialization drive began through the establishment of state owned enterprises. To carry out the policy of statism the government set up a number of agencies. These agencies were structured into two different ways: a) direct state enterprises, and b) economic state enterprises. At the beginning, the most important of these agencies were Sumerbank and Etibank, whose functions were to finance and manage various state enterprises and to promote development in the fields of mining and power production. These two agencies, were in the meantime, carrying out normal banking activities. The mobilization of local capital was achieved through heavy taxation, forced savings and internal loans. The protection of domestic industry, through high tariff policy, was accepted.¹ Russia and Turkey signed an agreement for a loan of \$8 million² (again, this was in the 1920's, prior to the disintegration of relations between the two countries). The bulk of foreign trade was conducted on a basis of clearing and compensation agreements.³ The deficit of foreign trade was balanced. (See Table I.)

¹ "It was not less than forty percent," S.C. Wyatt, Turkey, The Economic Situation and Five Year Plan, International Affairs, Nov.-Dec., 1934, No. XII/6, 830.

² Lewis, Op. Cit., 230.

³ A.P. Alexander, Economic Change In Turkey, Unpublished Ph.D. Dissertation, U.C., 1957, 15.

TABLE I.
TRADE BALANCE OF TURKEY
(VALUE IN 1.000 T.L.)

Years		Balance
1923	(-)	60.138
1924	(-)	34.743
1925	(-)	49.191
1929	(-)	101.082
1930	(*)	3.093
1931	(+)	615
1932	(+)	15.317
1933	(+)	71.536

Source: M.H. Butun, Foreign Economic Policy of Turkey, Unpublished Masters Thesis, U.C. 1946.

The five year plan was launched in 1933-1934. It was inspired by Russian precedent and helped by Russian advice and finances.¹ Consumer goods production was the leading sector in industrial development and was meant as a substitute for imports.² The principal targets of the plan were "the development of three categories of industries: a) industries for which the raw materials were produced in Turkey but in which domestic production was not sufficient to meet the needs of the country,

¹ Lewis, Op. Cit., 276, 281, 473 and Thornburg, Op. Cit., 38-41 and Alexander, Op. Cit., 13.

² W.W. Rostow, The Stages of Economic Growth, Cambridge, 1960, 28-29.

- b) industries that could process local raw materials for export in a finished or partly finished state, and
- c) those that could produce goods consumed in the country in considerable quantity even though the raw materials had to be imported. The specific fields in which development was scheduled included certain chemical industries, iron and steel, copper, mining, (and so on)."¹

Economic planning in the hands of the government was a tool for the achievement of a goal--a self sufficient country. The prime minister, Ismet Inonu, declared: "The purpose of making Turkey an independent nation finds its expression in the will to change her into a self sufficient body."² The plan brought about a significant increase in Turkey's industrial output, which between 1927 and 1939 rose from .14 percent to .23 percent of the world's total. This rate of growth exceeded only those of Russia and Japan.³ However, agriculture was neglected. When the weather conditions were good national income per capita rose--due to the fact that a large share of the national produce was made up of agricultural income. This correlation can be seen from Table 12,

¹ Kerwin, Op. Cit., 240-241.

² Thornburg, Op. Cit., 35.

³ As quoted in: Lewis, Op. Cit. 464 and Alexander, Op. Cit., 17.

TABLE 2
 TURKISH PRODUCTION AND REAL NATIONAL INCOME INDICES²
 1929-1945
 (1938 = 100)

Years	Agr. Pr.	Indust. P.	National I.	N.I. per C.
1929	73	57	72	85
1935	72	82	83	87
1938	100	100	100	100
1939	105	114	104	101
1941	95	118	-	-
1945	75	128	86	78

²Although the accuracy of these figures may be subject to slight question due to the lack of statistical data (especially prior to 1940), TABLE 2 nonetheless shows a trend and is therefore valid for our purposes.

Source: V. Eldem, "Les Progres de l'Industrialization en Turquie," Revue de la Faculte des Sciences Economique de l'universite d'Istanbul, Octobre, 1947, as quoted in Alexander, op. cit. 17.

In general, statistis in this period proved itself to be a useful tool. The Turkish economy has exhibited remarkable momentum.¹ External economies were created, personnel were trained, the market was enlarged, new technological methods were adopted, an entrepreneurial class began to be formed. In other words, Turkey, as a whole, possessed a considerable industrial plant capacity.³ This new statist experience was a successful one. Under statist Turkey had made substantial progress; "It is doubtful whether comparable accomplishment would have taken

¹Rostow, op. cit., 28-29.

²Alexander, op. cit. 21.

place under domestic private enterprise with the handicap of Ottoman heritage."¹

However, statism was severely criticized: It neglected the agricultural sector. Because of this the overall material welfare of the nation could not be secured and the welfare of only a small number of landowners was improved.² Prices on state monopoly products became exorbitant.³ Moreover low income groups were against statism because it achieved the formation of some industry at the expense of their own standard of living.⁴ Furthermore, the people who had accumulated capital wanted to obtain economic security and began to demand that they be allowed to take over the enterprises which at that time were in the hands of the state. They declared that statism was the main obstacle of further economic development. Statism was criticized from abroad too. The United States criticized Turkey for not sufficiently freeing the economy and certain moral pressure was exercised in this respect to ease the government control of economy.⁵ Statism entered a phase of

¹International Bank for Reconstruction and Development, The Economy of Turkey, Washington, 1951, 9, and Rostow, op. cit., 38.

²Karpat, op. cit., 306.

³Bisbee, E., The New Turks, Philadelphia, 1956, 215.

⁴Karpat, loc. cit., 295.

⁵Lewis, op. cit., 323, and Karpat, op. cit., 299.

gradual surrender to private enterprise economy when a second political party entered the political scene in 1946.¹ Moreover, due to World War II, the government was faced with heavy expenditures for defense purposes. Exports declined because of supply and shipping difficulties. The price level rose four to five times between 1938 and 1945.² The first trade deficit occurred in 1947.

In 1950, a new political party, the Democratic Party, came into power. Statism, the economic policy of Atatürk, was dropped. The social overhead capital activities were the primary objectives of the new government.³ Enterprises grew rapidly. In 1950 there were 2335 factories; by 1954 the number had risen to 4527. In 1950, six new corporations were formed with combined capital of 2.8 million liras.⁴ In 1954, fifty-six new corporations with combined capital of 167.2 million liras were registered.⁵ However, this progress was limited by the shortage of the available foreign currency. Difficulties in importing raw materials caused the existing industries to operate at less than full capacity.

¹Bisbee, op. cit., 215.

²Alexander, op. cit., 22.

³Hirschman, op. cit., 94.

⁴100 dollars = 126.02 Turkish Liras (T.L.) in 1938.

100 dollars = 131.43 T.L. - 1946

100 dollars = 280.50 T.L. - 1950

100 dollars = 1143. - T.L. - 1963

Sources: Republic of Turkey, Prime Ministry, Central Statistical Office, Monthly Bulletin of Statistics, Ankara, 1961, No. 81, and (for 1963) free market price at New York: The New York Times, April 11, 1963, 15.

⁵U.S. Department of Commerce, Investment in Turkey, Washington, 1956, 71.

Nevertheless, agriculture output due to very favorable weather conditions together with American aid boosted the economic growth. Turkey began to export wheat and agricultural products. However, a favorable balance of trade could no longer be obtained. The financing of agricultural investments was made possible through American aid. As a matter of fact, 35.2 per cent of all American aid to Turkey was directed toward agriculture.¹ From 1950 to 1960 American aid totalled approximately 1,110,400,000 dollars.² Other sectors of the Turkish economy received American aid in smaller proportions. Between the years of 1948 and 1958 foreign aid played a very important role in the increase of national income--fifteen per cent of the increase is due to this aid.³ The agricultural sector received credits, subsidies from the government and began to industrialize. In 1950 investment in agriculture was thirty million T.L. and it became 175 million T.L. in 1953.⁴ Investments reached thirteen per cent of the GNP in 1953.⁵ Meanwhile, the transportation system was

¹B. Tuncer. Milletlerarası İktisadi Yardımlar ve İktisadi Kalkınma Problemi (International Economic Aids and the Problem of Economic Development), unpublished Doctoral Dissertation, University of Ankara, 1960, 115, 138-139.

²Ibid.

³Ibid., 144.

⁴F.O.A., Turkish Investment and Economic Development, Dec. 1953, as quoted in Alexander, op. cit., 73.

⁵Alexander, op. cit., 26.

enlarged by government investments. Industrial output increased fifty-eight per cent between 1948 and 1954.¹

TABLE 3
INDUSTRIAL OUTPUT IN TURKEY
1953 = 100

Years	Output
1938	43
1948	69
1949	76
1950	77
1951	84
1952	91
1953	100
1954	109
1955	124

Source: Alexander, op. cit., 108.

Although national production almost doubled, the distribution of national income maintained the same unbalanced pattern as in the past.² While laborers' wages remained low, capital accumulated in the hands of landowners and businessmen.³ At the same time, private investment in agriculture declined from 210 million T.L. in 1952 to 175 million T.L.

¹Loc. cit.

²Karpas, op. cit., 109, 450. However statistics do not as yet exist to show the distribution of national income. We must therefore accept Karpas's assertion with a degree of caution.

³Ibid.

in 1953,¹ due to the decline of savings (both voluntary and compulsory) in that sector together with a sharp increase in consumption.

Traditionally, Turkish peasants are free from the burden of taxes. Even the richest farmer does not pay any taxes. Because of this, the agricultural income could not be invested in state industrial enterprises. The foreign trade deficit continued to be high. (See Table 4.)

TABLE 4
TURKEY'S FOREIGN TRADE BALANCE
IN MILLION DOLLARS
1950-1960

Year	Ratio, Imp. to Exp., Per cent	Imports	Exports	Deficit
1950	93.0	283	263	20
1951	78.8	398	314	84
1952	65.5	551	363	188
1953	75.0	528	396	132
1954	70.6	474	335	139
1955	63.5	493	313	180
1956	75.6	404	305	99
1957	87.7	394	345	49
1958	79.2	312	247	65
1959	76.2	466	354	112
1960	69.2	464	321	143

Source: The Union of Chambers of Commerce, Industry and Commodity Exchanges of Turkey, Ankara, Economic Report, Ankara 1961, 69.

As will be calculated from the table, the trade deficit of the last eleven years amounts to 1,211 million dollars.

¹Alexander, op. cit., 73-77.

The annual average is 110 million dollars. The last deficit of 143 million dollars is therefore thirty per cent more than the annual average of the eleven years.

The government began to finance its investments by issuing bank notes. From 1950 to 1960 state policy was focused on foreign aid. But a request for a \$300 million loan from the United States was rejected.¹ Finally, in 1954, the crop failure was a crucial blow to Turkish economy as a whole. The government was faced with internal inflation (see Table 5), the exhaustion of foreign exchange reserves, and the accumulation of internal and external indebtedness.²

TABLE 5
INDICES OF CONSUMER PRICES
1953 = 100

Year	Price
1953	100
1954	109
1955	119
1956	135
1957	152
1958	171
1959	216
1960	228

Source: OEEC, Twelfth Annual Economic Review, Paris, 1961, September, 201.

¹Alexander, op. cit., 230.

²OEEC: Europe and World Economy, Eleventh Annual Economic Review, April 1960, Paris, 33-34. On the other hand, the foreign debt of Turkey in 1958 was 4,403,485,000 T.L.; see Monthly Bulletin, op. cit., 15 (no. 76).

As can be seen the inflationary increase of consumer prices is very high. The rate of increase in the consumer prices from 1953 to 1960 is 128 per cent. However, major efforts were being made to cut down the inflationary financing of public and private expenditures in the investment field, and to bring imports into line with available current resources.¹ Nevertheless, the government was overthrown by a military coup. The opposition party's leader, Ismet Inonu, who presumably was in favor of returning to the old statist policy, became prime minister and the military junta established a state planning organization under his auspices.

The act which formed the State Planning Organization obliged the organization to perform certain duties:²

(a) In order to assist the government in the determination of the economic and social policy and the targets, the organization will find out the natural, human, and economic resources and the possibilities of the country;

(b) In order to coordinate economic policies of the various ministries, the organization will recommend necessary actions and will help the ministries in policy determination;

(c) The organization will prepare short term and long term plans so as to obtain the realization of the government's economic targets and objectives:

¹OECC, ibid.

²Publication of the Turkish Planning Board, Planlama: Planlama Nedir? Nicin Plan Yapiyoruz? (Planning: What is Planning? Why Planning? Ankara, 1962 (in Turkish), 14-15.

(d) The organization will recommend necessary changes and reforms in the structure and in the activities of the local administrative units and institutions so as to obtain successful application of plans;

(e) It will be the organization's responsibility to evaluate and execute the plan, and if necessary to make any changes necessary; and finally,

(f) The organization will make recommendations concerning the encouragement and possible reorganization of activities within the private sector in harmony with the targets and the goals of the plan.

With these obligations and responsibilities in mind, the planning organization will prepare necessary technical works for government approval. The final decision on any plan and program belongs solely to the government. In other words, the parliamentary regime will indirectly be able to control the activities of the planning board. As a matter of fact, the final plan must be ratified by the parliament before the government has the power to execute it. These intricate relationships between the government, the parliament, and the planning organization can be best illustrated by analysis of the organizational scheme of the planning organization. We shall first point out the relations between the parliament and the government, then the relations between the government and the planning organization.

According to the Turkish Constitution, the government, the council of ministers consists of the Prime Minister and the ministers. The Prime Minister is appointed by the President of the Republic from among the members of the Turkish Grand National Assembly (the Parliament). The ministers are in turn nominated by the Prime Minister,¹ and together with the Prime Minister are responsible to the Parliament both as a unit and as individuals.²

The Council of Ministers is entitled to initiate legislation.³ The five year plan comes to Parliament for ratification through the Council of Ministers. Rejection of the plan may bring a request for a vote of confidence from either the Prime Ministry or the Parliament. To be defeated a vote of confidence must be rejected by an absolute majority of the members of the Parliament.⁴ This is the democratic control of the plan. Economic, social and cultural development will be based on a plan, and the development of the country will be carried out according to this plan;⁵ however there is no power in either the hands of the government or those of the planning organization to prevent parliamentary

¹Constitution, op. cit., article 102.

²Ibid., article 105.

³Ibid., article 91.

⁴Ibid., article 104.

⁵Ibid., article 129.

changes in the plan even though there is no supreme organ to dissolve the Parliament. It may freely enact any changes-- even those tending to impair the unity of the plan. The government may only use its political pressure on the Parliament in order to save a given plan. This powerful instrument, however, has not been used recently.

The High Planning Board is the highest organ in the structure; it consists of the Prime Minister or the deputy Prime Minister, three ministers elected by the Council of Ministers, Chairman of the central planning organization, and the presidents of the three offices. The special characteristic of the board lies in the fact that its members represent either political or technical factions. The main purpose of this composition was to obtain a balance between the political authority and the technical authority. In other words, the composition aimed at creating a collaboration between the politicians and the technicians on the decision-making processes.

The Board's main duty is to determine the economic and the social targets of the plan, and in general, to formulate a general strategy which the plans will follow. In determining the basic strategy, technicians in the High Board will present technical studies made by the Central Planning Organization, to the Board and will suggest several alternative proposals for acceptance. Conclusions will be drawn from the discussions of these proposals and prepared for

ADMINISTRATIVE STRUCTURE OF THE PLANNING ORGANIZATION

The Council of Ministers

The Prime Minister

Deputy Prime Minister

State Planning Organization

Central Planning Organization

High
Planning
Board

The General Secretary

Economic Planning Office

Social Planning Office

Coordination Office

Permanent and Temporary
Specialization
Commissions

Long Term
Plannings
Branch

Annual Programs
Branch

Analysis of the
Projects and Sectoral
Processes Branch

Permanent and Temporary
Specialization
Commissions

Research
Branch

Planning
Branch

Fiscal and Legal
Activities Branch

Research and
Analysis Branch

Publication and
Representation
Branch

Source: Planlase, op. cit., 13.

presentation. The main objectives and basic strategy of the plan will then be taken to the cabinet by the High Board's three cabinet ministers and the chairman of the planning organization for final decision. After the approval of the Council of Ministers, the plan will be given to the Parliament for ratification, after which the plan will be accepted as "Planning Act, 1963."

The second important organ in this structure¹ is the Central Planning Organization. Administratively related to the deputy Prime Minister, the Central Planning Organization consists of a secretaria, and the three offices-- offices which differ both in function and in structural composition.

The function of the Economic Planning Office is to prepare plans and programs on a short or long term basis, as well as for regional application. On the other hand, the duty of the Social Planning Office is to prepare plans that will solve the social problems of the country. Its most important functions are the preparation of a plan which will meet Turkey's future manpower requirements and the development of methods to erase the existing income differentiations between the country's several regions.

¹The fourth step in our scheme, the State Planning Organization is omitted in this analysis, since it has been used in the diagram for the purpose of clarification only, and is not basic to our discussion.

The Coordination Office is responsible for the preparation of necessary advice and recommendations concerning the plan's successful execution in the framework of the country's economy. Its main function is to coordinate the execution of the plan within various sectors of the economy.

According to the officials of the Planning Board, Turkish market prices cannot be considered as exact measurement of the preferences and costs due to immobility in factors of production. For this reason it is not possible to find the most profitable areas in order to make investments in those areas.¹ Moreover, according to the report prepared by the International Bank for Reconstruction and Development, unprofitable investments have been supported by public funds due to lack of the automatic bankruptcy in Turkey, and, as a result, some important industries have been slighted, while others have been developed or expanded which were not suited to Turkey's needs and resources.² For these reasons the whole economy was to be planned and the functioning process was to be regulated by a central planning board. The planning board would take a rather simple approach in the regulation of the economy. First, planners would decide upon the desired growth rate;

¹The Official Periodical of the State Planning Organization, Planning, Autumn 1961, Vol. I/1 Ankara, 42-44 (in Turkish).

²IBRD, op. cit., 33.

second, the rate of investment would be calculated in order to obtain this growth rate; third, the demand elasticities would be determined in various sectors in view of the increased income; and finally, further investment rates would be determined in those sectors according to the increased demands in these sectors.¹

According to Prof. Tinbergen, chief advisor to the Turkish planning board, fifty-six billion T.L. will be invested during the recent five year planning period, at the end of which the national income will be increased twenty billion T.L.²

What is the place of private enterprise in this scheme? Clear-cut answers to this important problem have not been given in official documents. However, the general policy is clear: according to the parliamentary act which establishes the state planning organization, the private sector will be encouraged and organized in harmony with the goals and objectives of the plan.³ The investments of the private enterprises will be channeled to certain areas,⁴ and planners will obey the principles of the mixed economy in

¹Planning, op. cit., 44.

²Cumhuriyet, March 15, 1962, 1 (Turkish newspaper).

³Turkish Official Gazette, Law Concerning the Establishment of the State Planning Organization, Ankara, October 5, 1960, Article 2-f.

⁴Planning, op. cit., 26.

order to get the best results; in general the private sector will be regulated through advice, action by the banking mechanism, and other economic and financial measures.¹

2. Operation of the Turkish Economy

The census taken in 1960 established that Turkey's population had reached 27.8 million.² During the period 1950-1955 the yearly rate of increase was on the average 28.1 per thousand, then climbed to 29.3 in the following five years. This means that an average of 700 thousand new citizens were added to the population each year during the latter half of the decade, causing the population to rise to 27.8 million from 24.1 million in 1955.

As of 1950, 74.3 per cent of Turkey's population lived in villages and rural areas; this proportion fell to 70.3 in 1955 and to 68.1 in 1960. The active population (ages 15-64) is more than fifty per cent of the whole population.³ National income, on the other hand, is low and the share of the national income derived from agricultural production is approximately fifty per cent of the national income. (See Table 6.)

¹Planning, op. cit., 26.

²Figures are based on Economic Report, op. cit., 7.

³S. Inan, The Economy of Turkey, unpublished notes of the former director of central statistical office of Turkey, Ankara, 1960, 2 (in Turkish).

TABLE 6
 AGRICULTURAL INCOME IN
 NET NATIONAL PRODUCT

Year	Net National Product	Agricultural Income	Per cent Agricultural Income in N.N.P.
1948	8,814.7	4.691.4	53.2
1950	9.098.3	4.551.2	50.0
1952	11.393.0	5.848.3	51.3
1953	11.690.7	5.141.0	44.9
1956	13.298.1	6.161.4	46.3

Source: Inan, op. cit., 3.

However agricultural income largely depends on weather conditions. For this reason, when weather conditions are favorable agricultural income and the volume of the national income increases. Fluctuations in the agricultural income cause fluctuations of the national income. The existing government's failure to alleviate this problem was one of the reasons for the army coup in 1960; its main complaint lay with inadequate agricultural policies.

The fluctuations of Turkish national income can be seen in the table below.

TABLE 7
 FLUCTUATIONS OF AGRICULTURAL
 INCOME IN N.N.P.

Year	N. N. P.	A. I.
1948	100.0	100.0
1949	88.8	78.3
1950	103.2	97.0
1951	119.1	117.1
1952	129.2	124.7
1953	143.7	136.5
1954	130.0	109.6
1955	143.7	124.3
1956	150.9	131.3

Source: Inan, op. cit., 3.

TABLE 8
 PER CAPITA NATIONAL INCOME AND GROSS NATIONAL
 PRODUCT - CONSTANT PRICES

	1948	1950	1953	1955	1957	1958	1959
National Income	440	434	555	513	549	597	589
GNP	502	496	634	588	630	685	677

Source: Economic Report, op. cit., 11.

As will be calculated from Table 8, per capita national income during the period 1948-1959 recorded a rise of 34.8 per cent. This means that average per capita national income increased by 3.7 per cent per annum. As revealed by the foregoing figures, the rate of increase in Turkey's national income can hardly be called satisfactory.

On the other hand, the proportion of private consumption to overall investment is very high.

TABLE 9

RATIO OF PRIVATE CONSUMPTION
TO OVERALL INVESTMENT

Year	Private Consumption of Total Income (Per cent)	Overall Investment of Total Income (Per cent)
1950	74.7	10.4
1953	76.5	11.9
1955	73.1	14.9
1956	77.9	11.2
1957	77.6	11.6
1958	77.5	11.7
1959	76.5	13.4
1960	77.5	10.6

Source: Economic Report, op. cit., 13.

As may be observed in the above table, the rate of the overall investments did not exceed fifteen per cent of the total income. Two main reasons can be given for this situation: a) per capita national income is very low,

resulting in a low saving ratio and investments in Turkey are strictly connected with the availability of the imported machinery. The Industrial Development Bank of Turkey emphasizes the first of these two reasons and encourages saving and private investments. As a matter of fact, the rate of private investments is over fifty per cent of all investments. (See Table 10.)

TABLE 10
STATE AND PRIVATE INVESTMENTS

Year	State Investment (Per cent)	Private Investment (Per cent)
1948	39.4	60.6
1949	40.9	59.1
1950	41.9	58.1
1951	29.4	70.6
1952	35.5	64.5
1953	41.5	58.5
1954	38.8	61.2
1955	41.9	58.1
1956	42.0	58.0

Source: Inan, op. cit., 7.

Over the period from 1948-1956 the state's investments simple average is 39.1 per cent of the total investments, while private investments average 60.9 per cent of the total.

The state participates in industrial activities through Economic State Enterprises, which are formed by a special law. According to this law, such industrial enterprises have an executive committee and a director

as administrators and operate as an independent unit in accordance with the principles of commercial life. Moreover, these enterprises have several other independent institutions, in the form of common stock corporations, related administratively to themselves. In general these industrial agencies have more administrative and fiscal freedom than the normal direct state enterprises. Economic State Enterprises can be best illustrated by the Sumerbank and Etibank. The organizational plan prescribed by the Law for Economic State Enterprises provides for a general economic commission, presided over by the Prime Minister and including the ministers of Finance, Economy and Commerce, Agriculture, members of various committees of the Grand National Assembly, and directors of various state banks and enterprises. The commission annually reviews the financial and operational performance and general programs of all enterprises in which the government owns more than fifty per cent of the stock. The Prime Minister's High Control Board carries out an annual audit and inspection of each and reports to the General Economic Commission. Each of these enterprises has a Board of Directors appointed by the Council of Ministers, under which is general management, usually consisting of a General Director and two assistants, one technical and one administrative. The general director

is an ex officio member of the board of directors. Managers of individual plants or offices are responsible directly to the general management. They are independent of the government budget, and prepare their own operational budgets, operate under special civil service laws and are free to hire and dismiss personnel as they see fit.

The profits¹ of these enterprises have habitually been retained by each enterprise as additions to capital or as special reserves. These enterprises have never paid the state any interest on investment capital, nor have they returned any capital funds to the Treasury. Depreciation funds set aside by individual industrial plants are also retained by the holding company and may be reinvested as the enterprise deems advisable. Thus the enterprise has at its disposal substantial funds for expansion.

The head office of each enterprise may interfere in the purchase of raw materials and supplies as well as in the marketing of the individual factory's products. As a result, plant managers can exercise little initiative and tend merely to carry out orders given them by their superiors. Top management of these enterprises, moreover, is hampered by lack of information on operations and is overburdened with paper work. Heavy administrative expenses add to the costs of production and unnecessarily raise the prices of finished goods. From

¹For example, Sumerbank's gross profit in 1961 was seventy million T.L., Cumhuriyet, March 1962, 1-5 (Turkish newspaper).

the point of view of effective business operation, the Economic State Enterprises are better than the direct state enterprises because they give the individual enterprise greater independence. For this reason, direct state enterprises have tried to adopt the status of an Economic State Enterprise. This attempt created new problems. Direct state enterprises, which were formerly obliged to perform public service, execute general policy and perform governmental orders, now invited more and more governmental interference into their activities. The fiscal and administrative independence of Economic State Enterprises ceased; the executive committees and their directors began to be appointed by related ministries; the right to get managerial bonuses was abolished. In other words, these enterprises became old state institutions. Managerial incentives were killed. The skilled workers and managers resigned and went to private enterprises.¹ Today 121 Economic State Enterprises are related

¹However, Turkish people traditionally prefer to work in the government services. See: IBRD, op. cit., 198. It may be said that the reasons of this tradition are twofold: the unique organization of Ottoman-Turkish feudalism, and the Islam religion. During the Ottoman Empire "there was no recognition of a permanent individual proprietorship but only grants for life and in consideration of service in war" (M. Weber, op. cit., 62). For religious consideration see: T. Stoianovich, "Factors in the Decline of Ottoman Society in the Balkans," Slavic Review, December 1962, Vol. XXI/4, University of Washington, 627-628.

to several ministries. The planning board recently urged the government to make drastic reforms in the structure of these enterprises.

In 1955, 6.83 per cent of the whole active population was employed in industry,² of which thirty per cent was working in government factories.³ In 1960, income from industrial production at constant prices was 1,826 million T.L.; statistics in the industry all indicate a rise in volume, as shown in Table 11.

TABLE 11
INDUSTRIAL PRODUCTION OF PRINCIPAL ITEMS
1,000 Tons

	1950	1953	1958	1960
Pig Iron	111.2	209.5	231.0	247.6
Steel Ingots	90.8	162.6	159.9	266.0
Cement	396.0	528.0	1512.0	1899.0
Sugar	137.4	180.1	349.5	568.3

Source: Economic Report, op. cit., 18.

The rapid increase in the cement and sugar sectors is due to the realization of previous years' investments in these areas.

¹Planning, op. cit., 47.

²Inan, op. cit., 18.

³Grunwald and Ronald, Industrialization in the Middle East, New York, 1960, 340.

In industry, state and private manufacturing establishments are in operation. The private establishments are concentrated mainly in light industry, leaving heavy industry to the state. Analysis of the activities of these establishments will be limited to the period of 1950-1954, since the role of private establishments in the economy is most important during this period.

During these years, the number of the state factories and manufacturing establishments was decreased. The government's anti-statist policy resulted in the sale of some state establishments to the private companies. Furthermore, both government credits and foreign aid to private industry were at their peak. The law of the Encouragement of the Private Industry had been used extensively by the government, freeing imports and easing the foreign currency transfers.

Our analysis of this period will consist of comparing the activities of state and private manufacturing establishments. (See Table 12.)

As will be observed in the following table, in 1950 the number of industrial establishments, state and private, was 1905. Between the years of 1950 and 1954, the number of private firms had risen from 1802 to 3704. On the other hand, due to the anti-statist policy of the government, during the same period a small number of government establishments were

TABLE 12

ACTIVITIES (CHARACTERISTICS) OF MANUFACTURING ESTABLISHMENTS
 USING MORE THAN 10 H. P. AND/OR EMPLOYING MORE THAN
 TEN PERSONS, 1950-1954, (S = STATE, P = PRIVATE)
 Industry as a Whole--i.e., Twenty Branches

Years	No. of Est.	Workers		Total of Annual Wages	Annual Sales Receipts	Manu- facturing Value	Raw Material and Power Used	Value Added	Fixed Capital Invested (annual)
		Owners Working as Employees	Number						
									1,000 T. L.
1950	S 103	-	-	76,033	871,126	929,812	501,788	428,024	42,653
	P 1,802	1,629	2,477	70,163	892,575	910,523	648,767	261,756	34,834
1951	S 111	-	-	83,858	1,032,631	1,129,934	616,890	513,043	68,436
	P 2,636	2,477	2,477	90,724	1,262,192	1,291,317	938,266	353,051	54,038
1952	S 115	-	-	82,115	1,247,463	1,309,785	627,960	681,826	58,378
	P 2,910	2,675	2,675	99,588	1,421,729	1,444,555	1,015,218	429,337	66,061
1953	S 149	-	-	86,331	1,380,557	1,486,401	724,333	762,069	105,651
	P 3,355	3,650	3,650	120,960	1,848,729	1,870,870	1,366,410	604,460	126,051
1954	S 146	-	-	86,161	1,555,679	1,604,591	641,955	762,626	179,112
	P 3,704	3,512	3,512	130,960	2,253,177	2,315,213	1,568,244	746,969	111,873

Source: Republic of Turkey, Prime Ministry, Central Statistical Office,
 State and Private Sectors, 1950-1954, Ankara, 4.

sold to private enterprise.¹ In other words, establishments decreased from 149 to 146.

The number of wage earners in the private sector increased very rapidly from 70,163 in 1950 to 130,960 in 1954. In the same period, the number of private establishments almost doubled. Although some establishments were sold to private companies, the workers in the public sector remained fairly stable--not only because the state factories began to work twenty-four hours per day (three shifts) but also because the capacities of the factories were enlarged. Calculation of fixed capital per worker reveals that enlargement of the capacity had risen from 1,227,000 Turkish Liras in 1953, to 2,082,000 Turkish Liras in 1954. On the other hand, the fixed capital invested per worker in the private sector implies that the capacities of the public establishments are larger than those of the private firms; in the private sector, fixed capital invested per worker was 1,050,000 Turkish Liras in 1953 and 854,000 Turkish Liras in 1954.

The comparison of the value added and the created value of these two sectors implies that more efficient operation does exist in public sector industries: The value added by public establishments in 1954 totalled 762,626,000 Turkish Liras, whereas in the same year the private sector totalled 746,969,000 Turkish Liras. The created value in the public

¹Grunwald, op. cit., 342.

sector averaged 5,223,716 Turkish Liras per establishment compared with 201,665 Turkish Liras for establishments in the private sector. Moreover, the value created per worker in the state sector is, on the average higher than in the private sector. In 1954, the value created per worker in the public sector was 8,851 Turkish Liras, contrasted with 5,554 Turkish Liras in the private sector.

Per worker output is also higher in the public sector; for example, in 1954, per worker output in the private sector was valued at 17,673 Turkish Liras; per worker output in the public sector for the same period of time totalled 18,656 Turkish Liras.

Likewise, working conditions are better in the state factories,¹ wages are higher than those of the private sectors. In 1950, the total wage bill of 76,033 workers in the public sector totalled 139,916,000 Turkish Liras. In the same year, 70,163 workers of the private sector received 79,885,000 Turkish Liras. Four years later, in 1954, the 86,161 workers in the public sector received 243,524,000 Turkish Liras, and the 130,960 wage earners in the private sector received 230,524,000 Turkish Liras. Using 300 working days as a year, it can be calculated that a state employed worker earned 9.0 Turkish Liras per day in 1954, whereas workers in the private sector

¹Ibid.

earns 6.0 Turkish Liras for the same period of time.¹

Net profits are lower in the private sector than in the public sector. In 1954, the public sector received an income of 1,555,679,000 Turkish Liras from annual sales. If we consider the cost of production to be the sum of the total amount of wages and the cost of raw materials (which in this case is 1,085,589,000 Turkish Liras), we calculate the profit of the public sector to be 470,090,000 Turkish Liras. On the other hand, in the same year and under the same considerations, the private sector's profit was 454,409,000 Turkish Liras. Moreover, the profit made per worker is higher in the public sector than in the private sector. The figures are: for the public sector, 5,470 Turkish Liras; for the private sector 3,468 Turkish Liras. However, the rate of increase in profits from 1950 to 1954 is higher in the private sector than in the public sector. Calculated figures are:

TABLE 13

THE RATE OF INCREASE IN PROFITS

	Public Sector	Private Sector
Profit in 1950, T.L.	229,422,000	163,923,000
Profit in 1954, T.L.	470,090,000	454,409,000
Increase in per cent	105	177

¹It should be remembered that workers in heavy industry usually receive higher wages than those in light industry. Turkey as an underdeveloped country and the Turkish public sector in dealing mainly with the heavy industrial activity are not exempt from this general rule.

The state exercises almost complete monopoly in the iron and steel industry and has established monopolies in the alcoholic beverages (except wine), coffee, tea, salt, and tobacco industries--private enterprises operate largely in the sector of consumer goods' production.

In general, private enterprise may operate in almost every sector of the economy. The actual possibilities are not limited by legal prohibitions, but rather hindered by policies of the government. The activities of private enterprise are restricted by the fact that they must import the greater part of their machinery. The government, however, uses the available foreign currency to meet the needs of its own enterprises. These difficulties result in the operation of private factories far below full capacity. In 1955, an investigation of the private sector found every branch of private enterprise operating below capacity.¹

According to Mr. Inan, private enterprises urgently need raw materials, spare parts, etc., to operate at full capacity. This same investigation revealed that the shortage of raw materials needed by private industries as of 1955 amounted to \$83,022,000.² However, there is no clear evidence from the documents of the planning board to indicate that the needs of the private sector will be met in the future. On

¹Inan, *op. cit.*, 19. Idle capacity in private industry in 1955 was: in textile industry, 38.3 per cent; in iron and steel industry, 15.4 per cent; in chemicals, 40.8; in electrical machines industry, 59.2 per cent.

²Ibid.

the contrary, the role of private enterprises in the economy may be further curtailed and narrowed. First the present application of the principle of statism reduces the private sector of industry to a very limited role in the economy. According to this present application, the state will leave to the private sector that part of the economy which is too small for the government to operate. This obscure definition may be interpreted to mean that the government will not nationalize small business (e.g., manufacturing establishments using engines less than 10 hp and/or employing less than 10 persons). But even these small entrepreneurs will have no guarantee of keeping their business in operation; the government and other public bodies are authorized by the constitution to expropriate the whole or a part of any immovable property under private ownership where public interest deems it necessary.

The second factor tending to narrow the role of private enterprise in the economy is the existence of political instability in the country. The existence of the extremely shaky coalition governments will certainly discourage investments--both by domestic and foreign investors; in particular long-term investment activities by the private entrepreneur will decline.

Third, the obscure attitude of the planning board toward private enterprises will hinder private firms' activities.

According to documents of the planning board, the private sector will be organized in harmony with the objectives and the goals of the plan. In other words, no private enterprise will be permitted to operate independently and all will be obliged to follow the objects and targets of the established plan. This regulation springs from the very nature of the plan: regulation of the economy through input-output tables necessitates extensive control of the private sector of industry.

The final factor inhibiting the private sector's free operation comes from the belief that "the task of allocating productive resources in an underdeveloped economy cannot be simply left to the market mechanism," not only because "complete reliance on the automatic forces of the market will not do the trick," but also because "the market mechanism . . . does not function smoothly enough to direct resources into the channels where they would be most useful."¹ This view of Mr. Okyar, a leading Turkish economist, has been supported by the planning authorities. Moreover, according to the planning officials, as we had said earlier, market prices in Turkey cannot be considered exact measures of preferences and costs due to immobility of resources; hence, it is not possible to find the most profitable areas in order to make

¹O. Okyar, "Investment Output Relations in the Turkish Economy," in Middle East Economic Papers, Beirut, Lebanon, 1957, 57-58.

investments in those areas.¹ As a matter of fact, due to the lack of an automatic correction of bankruptcy in the Turkish economy, unprofitable investments have often been supported by public funds (credits given to private sector); the result being that some industries have been slighted, while others have been developed or expanded which were not suited to Turkey's needs and resources.² For these reasons, the private sector's investment activities might bring wasteful results. If there existed only a public sector of industry, the execution of the investment decisions would be realized very easily; but the existence of the private sector creates special difficulties, since estimation by the planners of the rate and direction of the private sector's investment is all but impossible.³ For these reasons, the control and regulation of the private sector of industry is not only advantageous but also absolutely necessary.⁴

On July 9, 1961, a new constitution was approved by popular vote; a constitution having a structure drastically different from the previous one. Statism, per se, had been dropped from the constitution and replaced by a new and obscure

¹Planning, op. cit., 42-44.

²IBRD, op. cit., 33.

³Publication of the Turkish Planning Board, Planlama: Planlama Nedir? Nicin Plan Yapiyoruz? (Planning: What is Planning? Why Planning? Ankara, 1962 (in Turkish), 14-15.

⁴Although in official documents mostly used term is: "encouragement of the private sector."

variation. According to article 2, the "Turkish republic is a secular and social state."¹

According to constitutional amendments, although every individual is entitled to rights of ownership, the state and other public bodies are authorized to expropriate the whole or a part of any immovable property under private ownership where public interest deems it necessary; moreover, private enterprises which bear the characteristics of a public service may be nationalized.² Development of the country will be carried out according to centralized planning board's decisions.³ This board will assist the government in determining economic and social objectives and policies, but it will not have any authority to execute its plan. On February 24, 1962, a new military coup was unsuccessfully attempted; its charge, the government's inactivity in economic problems,⁴ was made against the government of Mr. İnönü. In other words, the friend of Atatürk and supporter of the 1930's statist policy now was in danger of losing prestige and power. As a matter of fact, several months later the four main planners of the planning board resigned from their posts.

¹Turkish Constitution, op. cit., Article 2.

²Ibid., Articles 38-39.

³Ibid., Article 129.

⁴The New York Times, February 24, 1962, 26 (editorial).

Mr. İnönü and his government accepted the resignations and appointed a new chairman and new planners. However, the shortage of qualified planners and economists in the country periled the plan's execution. Mr. İnönü's "open regime" policy excluded the concept of planned development in Turkey. A draft of the plan was published by military officials and sent to every military installation in Turkey; the same officials then published the plan after changes were made by Parliament, and again distributed it to military units. In other words, any small change in the plan was severely criticized by the Military.

The position of the younger officers in the armed forces and their stand on economic policies creates a real danger for governments of the future. Unless these governments change their attitude toward planning, there will always be the possibility of a crisis arising.

The planned growth rate is seven per cent per year.¹ In order to obtain this growth rate, eighteen per cent of the national income will be invested, of which fourteen per cent will be obtained from internal resources and four per cent from external resources.² The plan admitted, on the other hand, that domestic financing of the necessary investments

¹Planning, op. cit., 23, 44-45.

²Id., 24.

will be lacking. There will be a gap of about 134 million dollars for the first year (1963), rising to some 246 million dollars by 1967.¹ The program asserts moreover, that if Turkey is to afford its own share of financing the plan, drastic reforms and in particular tax reforms are needed. The reason behind the resignations of the top planners from their posts was the fact that they wanted to levy substantial new taxes, especially on agriculture. (As has been mentioned earlier, in Turkey no farmer, however rich, pays any income tax whatsoever.) Mr. İnönü was fully aware that a decision to levy taxes on agriculture would endanger the shaky coalition government's life. Since "the rich and the feudal acquired tremendous influence during the Menderes era, when the government depended on their support . . . these same powerful interests survived the military coup of 1960 almost untouched, and retain a firm grasp on all five political parties represented in the Parliament. Many of the deputies, from all parties, are themselves big farmers or come from wealthy landed families."² The "Open Regime" policy was aimed at keeping the parliamentary system in operation whatever the cost. For these reasons the government watered the plan down and accepted the resignations.

The acceptance of the planners' resignations meant that the government was not only pushing aside the established but was also giving more emphasis to the preservation of the

¹"Turkey's Radical Plan," The Economist, London, November 10, 1962, 578.

²Ibid.

civilian government in power. If taxes were levied, the eventual censure of the government by members of the Parliament was inevitable. Today, on the other hand, there is a widespread belief in the country that if Mr. İnönü resigns or loses the confidence of Parliament the army will take over the civilian administration. In other terms, this would mean the end of the parliamentary regime in the country, and the initiation of the "closed system." On this point, we have to make it clear that Turkey's present dilemma is not an easy one to solve. On one hand, the desire for preservation of the parliamentary regime will become the sole justification for refusing such radical measures as tax and land reforms, which in turn will invite outside influences and pressures upon the civilian administration. On the other hand, were Mr. İnönü to exert hard pressure on Parliament to carry out these reforms, he would bring about parliamentary censure of his government, which would result in the creation of a "closed regime." The main issue of concern is whether economic reforms will be carried out or whether the "open regime" will ultimately be unsolved. Today, Mr. İnönü, using his historical prestige, has decided that his parliamentary regime is more important than a planned development; if there is no overt pressure on the government this is due to Mr. İnönü's popularity.

Turkey's policy today is again the policy of the 1950's. It is our hope that today's Parliament, in showing

great understanding about Turkey's democracy, will carry out the planned reforms in the very near future, and save the country from having a "closed regime." It may be true that "the five year plan has a strong left-wing bias," but "few impartial observers would not agree that it is exactly what Turkey needs."¹

¹Economist, *ibid.*

YUGOSLAVIA

A case study of Yugoslavia is interesting for two reasons: first, she is the only communist nation of Europe which has embraced communism in complete freedom from the Soviet Union's intervention and dictates. Second, she remains the only communist nation to deviate willingly from the Soviet type economic system.

As we have said earlier, our analysis of the Yugoslav Economic system will be descriptive and will concentrate on the period of 1946-1963.

1. Ideological and Theoretical Background

On April 6, 1941 Yugoslavia was invaded by the Nazis and completely occupied. While the King and his government fled to the Near East (and later to London), the country was divided into German, Italian, Hungarian and Bulgarian occupation zones.

Inside Yugoslavia, the Axis occupation was fought by two guerrilla armies: the Ghetniks under General Drazha Mihailovic, who supported the monarchy; and the Communist Partisans of Josip Broz (Tito), whose plans for the future were copied from the Soviet Union.¹ These two groups fought not only the Axis occupying forces but also each other. Tito's Partisans, due to their greater military effectiveness,

¹ Louks, op cit., 613.

were able in November 1943 to establish an Executive National Committee of Liberation to act as a provisional government. They were so successful that even Winston Churchill's government gave them full recognition in February 1944 on the condition that free elections would be held in the near future. The repudiation of King Peter was completed. The provisional government, drawing power from its popularity, began to nationalise several means of production as a war measure. Thus, in 1945, after the enemy had been driven from the country, Yugoslavia had quite a different politico-economic character than had prewar Yugoslavia.

In the elections of November 11, 1945, Tito's forces won overwhelmingly, due in part to the fact that the monarchist factions had boycotted the balloting. Convening on November 29, the new Assembly abolished the monarchy and set up the Federal People's Republic of Yugoslavia. Tito was prime minister, and his government won recognition from both Britain and the United States. Moreover, in this election the electorate accepted the wartime nationalization and collectivisation measures which had been initiated.¹

Under Tito, the government embarked upon an internal policy of ruthless oppression and elimination of opposition factions, including the summary trial and execution of Mihailovic in 1946. As to external policy, Tito's government was active and aggressive. For example, "The history of the communist conquest of Albania was no more than an appendix

¹Ibid., 614.

to the story of Tito's conquest of Yugoslavia."¹ Yugoslavia, under the rule of communist dictator Tito, began to follow the patterns established by the Soviet Union in political, diplomatic, and economic affairs; this situation continued to be seen until 1946. On April 19, 1946, the Politibureau of the Central Committee of the Communist Party of Yugoslavia unveiled an important decision, concerning the Minister of Industry in the Federal Government and the president of Economic Council; this decision marked a turning point in the history of Yugoslavia. According to the decision, the Minister of Industry, Mr. Hebrang, possessed "unhealthy" attitudes toward the Central Committee and toward comrade Tito.² Mr. Hebrang, according to the official documents, "falsely represented the situation in...Yugoslavia, slandered the Central Committee of the Communist Party of Yugoslavia in front of...friends from the Soviet Union, as well as in front of others with whom he came into contact. In this way, he sought to hide his anti-party,...tendencies behind his false friendship for the Soviet Union."³ Moreover, Hebrang suspected comrade Tito of being intolerant towards him personally. Tito's distrust in Hebrang's policy stemmed

¹ F. Berkenau, European Communism, New York, 1953, 396. as quoted in J.I. Dilo, The Communist Party Leadership In Albania, Washington D.C., 1961, 2.

² _____, Statement Of The Central Committee Of The Communist Party of Yugoslavia, Belgrad, 1948, 26.

³ Ibid, 20.

from the fact that he had frequent correspondence with Moscow.¹ Moreover, Mr. Hebrang has asserted that "freedom of expressing opinion and of criticism and auto-criticism did not exist in the Central Committee."²

As a result of these "sins", he lost his high post in the administration.³

Until 1948, the relationship between Yugoslavia and the Soviet Union continued to be rather cool but nevertheless friendly. In March of 1948 the government of the Soviet Union informed the government of Yugoslavia that all Russian military advisors and instructors would immediately be withdrawn.⁴ The apologetic response to this move was given by Tito himself in his letter to Molotov expressed that they (the Yugoslavs) were deeply hurt, amazed, and could not understand the reason behind such a decision.⁵ The text on the language of Russia's

¹ Statement...op. cit., 26. It has been understood from the documents that Mr. Hebrang had secret correspondence with Moscow against Mr. Tito.

² Ibid.

³ In 1948 he was arrested.

⁴ Previously Yugoslav authorities regarding the heavy cost of the Russian military personnel in Yugoslavia had asked the Soviet Union to reduce the number of them.

⁵ J.B. Tito, "Letter From Tito To Molotov," in The Soviet-Yugoslav Dispute, London, 1948, 9.

letter of explanation was downgrading and insulting. According to the Soviets, "criticism and self-criticism within the Party (Communist Party of Yugoslavia) does not exist or barely exists,"¹ the leading comrades in Belgrad had declared war on the Communist Party of the Soviet Union,² and high ranking officials of Yugoslavia were creating an anti-Soviet atmosphere which was endangering relations between the communist party of the Soviet Union and the Communist Party of Yugoslavia.³ Moreover, Yugoslavs, according to the letter, in their criticism of the Communist Party of the Soviet Union were dishonest: while they publicly praised the Communist Party of the Soviet Union they discredited it secretly saying "the party is degenerate," "the USSR is trying to dominate Yugoslavia economically," etc.⁴

Upon receiving the Soviet's letter Yugoslav's previously apologetic attitude changed considerably and became firmer and more clear. Although they tried to blame Mr. Hebrang for everything, saying he was "the main culprit in providing inaccurate and slanderous information to the Soviet representatives in Yugoslavia,"⁵ they now clearly revealed the fact that they were "developing socialism in their country in somewhat different forms"⁶ than the

¹The Soviet-Yugoslav Dispute, 12-13.

²Ibid.

³Ibid, 14.

⁴Ibid.

⁵Ibid, 18.

⁶Ibid, 27.

Russians. Moreover, they firmly pointed out that they would not allow "the Soviet Intelligence Service to spread its net"¹ in Yugoslavia.

This clash between Russians and Yugoslavs deepened with the passage of time, and resulted in the expulsion of Yugoslavia from Cominform in 1948.

What was the real reason of this strife? As Russians clearly saw, of course, the Hebrang case was only a scapegoat for Tito's real aims. Indeed, Mr. Hebrang was a Russian agent in the sense that he wanted to see the Russian dominance in Yugoslavia. He agreed with the Kremlin that there is only one way to communism, a way which demands blind obedience to Moscow. But communism in Yugoslavia installed itself and won its way to power with a minimum of aid from the Soviet Union.² Moreover, communism in Yugoslavia had one additional meaning: it helped to gain Yugoslav national independence during the war of liberation. Yugoslavia was a nationalistic country. As the Turkish sociologist, Z. Gokalp, once said "each nation must develop her own system of national economy! This principle now caused Yugoslav resentment to the Soviet economic integration proposals."³ Russia's desire to achieve economic integration of her satellites' economies to such a degree

¹ Ibid, 29.

² Lowieks, op. cit., 614-615.

³ Yugoslavia "expelled from the Soviet bloc for nationalist deviation." F.W. Neal, "Yugoslavia At The Crossroads," The Atlantic, December, 1962, 77.

that they would support and complement the Soviet economy now met with serious resentment among the nationalistic Yugoslav communist leaders.¹ This resentment forced the Yugoslav leaders to take a firm stand against the dictates of Moscow.² Theoreticians began to formulate the necessary theoretical structures for this new system. Justification of this new system lay in the view that such a system was necessary because of the specific conditions of Yugoslavia.³ In other words, command economy was not suitable in Yugoslavia. Although the system of command economy served to promote further progress, it also created economic inefficiency, and bureaucratic rigidity.⁴ In our judgment, the organization of the new system, and the defense of democracy sprang not only from the strong nationalistic beliefs prevalent but also from the fact that the Yugoslavs needed something new and more attractive to resist Russian pressure. They needed a system attractive not only to their own citizens, but to Western public opinion as well; for Yugoslavia needed Western foreign aid after severing relationship with the communist bloc. Although¹⁴⁰ interpretation is labeled "contrary to the facts" by E. Kardelj, his own interpretation is far from being convincing.⁵

¹Intercontinental Press Service (publish.) Pattern of Conflict, 12.

²E. Ebenstein, Today's Isms, New York, 1960, 78.

³The Soviet-Yugoslav Dispute, op. cit., 27.

⁴J. Stanovnik, "Planning Through the Market: The Yugoslav Experience," Foreign Affairs, January 1962, Vol. 40, 252.

⁵E. Kardelj, "The Practice of Socialist Democracy in Yugoslavia," in C.W. Mills, The Marxists, New York, 1962, 416.

Until 1948, Yugoslavia followed the same lines as the Russians. Nor did the years following witness any change in their political system; they still have one of the most undemocratic political systems in the world: elections are not free; nor is there freedom to publish critical comment on governmental policy. Communist leaders are free from every form of criticism. The press is under the strict surveillance of the government.¹

(It must not be forgotten that Mr. Djilas has been imprisoned by this "New Class" because his free criticism of the ruling elite was not justifiable in this new Democratic Yugoslavia.)

The leading theoretician, Mr. Kardelj, while defending socialist democracy in Yugoslavia rejected the idea that Yugoslavia "has no alternative but to move, sooner or later, toward the classic bourgeois forms of political democracy which prevail in Western Europe."² However, in 1962 a close friend of Tito clearly stated that Yugoslavs in the Yugoslav political program, "strive for total democracy and complete freedom of political thought of the Western European type."³

Inconsistency within Yugoslav political philosophy can only be explained by consideration of the pragmatic nature of their philosophies adapted by Yugoslavia after her break with the Soviet Union. As we have said earlier,

¹C.B. Hoover, The Economy, Liberty And The State, New York, 1962, 416.

²Kardelj, op. cit., 416.

³M. Krleza, "The Bridge Between East And West," The Atlantic, December, 1962, Vol. 210/6, 76.

prior to their split, Yugoslav communists were following the rules of command economy in their country. After the break, however, the view evolved that a command economy, although enabling the country to ally economic progress, lacked the necessary humanism and was therefore inadequate.¹ The desire for "the withering away of the state" became the rationale for this new economic system.²

In a centralized administrative management of the economy (command economy), the realization of the fundamental socialist principle cannot be achieved; namely, a command economy is not aimed at the emancipation of labor, the release of man's creative energies by employing the social instruments of production, and the material and moral welfare of the individual.³ Moreover, quality of an individual's creative labor cannot be raised by the control, inspection or external pressure necessary in a command economy.

When the individual-as-producer was replaced at the center of the entire economic process, revision of the old system of command economy became inevitable. According to the Yugoslav's point of view both the command and free-market economies had failed to work satisfactorily in achieving the socialist goal: "to everyone according to his work."⁵ It was necessary to find a solution between

¹Stanovnik, op. cit., 252-253; Hoover, op. cit., 395.

²Loucks, op. cit., 621; Stanovnik, op. cit., 253; Hoover, op. cit., 395-404; Kardelj, op. cit., 418; J. Davico and M. Bogosavljevic, The Economy of Yugoslavia, Belgrad, 1960, 61.

³Kardelj, op. cit., 418-419.

⁴Loucks, op. cit., 621.

⁵Stanovnik, op. cit., 254.

these two extreme economic systems which would neither be inadequate for an accelerated economic development (such as free-market economy),¹ nor work at the greatest cost to personal freedom² (such as command economy).³ To achieve this goal, and to minimize the existing bureaucracy, they felt, it was necessary first of all to bring about the withering away of "the enemy of socialism: the state." The withering away of the state, however, "can occur only when socialism no longer needs the state as a prop to lean upon."⁴ The time had come, Yugoslav leaders felt, to create those conditions necessary for such a process; the state had completed its function of safeguarding the new social order and had re-established normal conditions after the revolution; moreover, the state's dominance over the economy had begun to create unhealthy symptoms.⁵

¹ Ibid., 253.

² Hoover, op. cit., 395.

³ As a matter of fact, the evaluation of the present day Yugoslav economic system by a western observer points out that Yugoslavs reached their objective of a "middle of the road" system: "The Yugoslav system lies somewhat between relatively laissez-faire attitude toward development of many western students and the tightly controlled system of the Soviets." B. Ward, "Yugoslavia," in A. Papelasis, et al., Economic Development, New York, 1961, 561.

⁴ Kardelj, op. cit., 428.

⁵ E. Kardelj, "Evolution In Yugoslavia," Foreign Affairs, July 1956, Vol. 34/4, 583.

For the ultimate realization of true socialism, and for the removal of the state as manager of the economy, the Yugoslav government formed a new system:¹ the planned guided market economy, based on Workers' councils. In other words, the government, with definite goals as to the organizational framework and rate of growth of the economy, decided to realize its goals by "means of a mixed system combining various degrees of government planning with increased reliance on market forces and local initiative."² The system has been aimed at achieving local initiative and the incentive necessary for development through formation and development of Workers' councils.³

What are the structural characteristics of the workers' councils⁴ and what functions do they fulfill in the operational process of the economy?

As we have said earlier, nationalization of Yugoslavia's means of production began during the Second World War as a war measure and continued by approval of the general election of 1945. Today, the official justification

¹This new system has "some theoretical resemblances to the soziale Marktwirtschaft (social market economy) of the neoliberals of present-day Germany and Austria." Hoover, op. cit., 395.

²E. Neuberger, "General Survey of the Yugoslav Economy" in R. F. Byrnes, (ed.), Yugoslavia, New York, 1957, 205.

³Ward, op. cit., 544, and Kardelj, Evolution... op. cit., 583, and B. Ward, "The Firm in Illyria: Market Syndicalism," American Economic Review, September 1958, Vol. XLVII/4, 569.

⁴This structural analysis will be mainly based on the works of Kardelj, Ibid., 589-591, and R. Kolak, et al., (edis.) Yugoslavia, Belgrad, 1958, 34-36.

for continued public ownership of the means of production is related to one of the dogmas of Marxism.¹ According to Mr. Kardelj, smooth revolutionary changes occur only in those societies in which political forms of economic relationships can adapt themselves with a high degree of flexibility to the development of the forces of production and social consciousness--and this can only occur where the means of production are owned publicly.²

On June 26, 1950, these publicly owned means of production were turned over to the workers' collectives by a special law for management. Workers' collectives manage the enterprises as public property,--i.e., they exercise the managing function on behalf of the society. The workers' collectives acquire the right of management as soon as an enterprise is founded, and can forfeit it only in case of a compulsory liquidation or similar cases provided for by the law. The management of an enterprise is exercised by the collective through the intermediary of the workers' council, as its representative (elected) body; the management committee; and the manager. The Workers' council and the management committee act as collective bodies and make decisions only while in session.

¹ Although "The Yugoslav experience has shown that a mere change in ownership does not solve the whole problem," (Stanovnik, op. cit., 260) they continue to defend public ownership.

² Kardelj, loc. cit., 582.

In principle, the workers' council is the supreme organ of management in an enterprise. It adopts the statutes of the enterprise; establishes the rules regulating labor relations; creates salary and wage regulations; approves the economic program and the balance sheet; and decides on the allocation of the enterprise's resources, on the distribution of income left at the free disposal of the enterprises, and on merging the enterprise with other enterprises. As an additional duty, the workers' council elects the members of the management committees and exercises control over its activities. Workers' council may number from fifteen to 120 members, depending on the size of the enterprise. In enterprises employing less than thirty workers, workers' councils do not exist, but this function is exercised by the entire collective. The election of workers' council members is carried out on the basis of general, equal and direct ballot at the beginning of every year after the approval of the balance sheet for the preceding year. All workers and employees of the enterprise enjoy an active and passive right of vote.

The legality of the election procedure is insured by the Community People's Committee and the district court.

The management committee numbers three to eleven members; one of which is the manager of the enterprise. The committee is directly in charge of the enterprise's management according to the resolutions passed by the workers' council. In particular, the management committee decides matters involving the appointment of employees to

executive posts, investigates the complaints of the workers and employees filed against decisions taken by the manager, promotes activities of the enterprise, insures proper working conditions, etc. No one can be a member of the management committee for more than two years, and a maximum of one-third of the members of the previous year's board may be re-elected. A member of the management committee cannot be dismissed or transferred to another job during the term of his service as a member of that committee. The members of the workers' councils and boards of management receive no remuneration for their duties on the council and board, but receive wages and salaries for work done on their regular jobs just as other workers and employees.

The manager directly organizes and runs the enterprise. He represents the enterprise and executes the decisions passed by the workers' council and the management committee, hires new workers and employees, allocates assignments and makes decisions about dismissals. The manager and other executive officers are appointed by the workers' councils and in co-operation with the people's committee of the community on whose territory the enterprise is located (choice of location is decided through public competition. The commission arranging public competition consists of representatives of enterprises, from communities and districts [republics, Federation]). The manager is held responsible for insuring the work of the enterprise is: in conformity with legal regulations. He, therefore, has both the right and the duty to stop the execution of decisions passed by the workers' council or management

committee should these contradict established laws or other existing regulations. In the event of a dispute between the manager and the workers' council in such matters, the final decision rests with the people's committee.

The extent to which the workers play a role in the workers' council is not very clear however. Whether or not they actually do perform a role is almost unknown. Disregarding official Yugoslav claims, we find western sources differing in their observations. It has been pointed out by some that because communists far outnumber non-communists in the workers' councils¹ and due to the dubious nature of the system of nomination,² it cannot be said that the workers actually control the organization,³ the decision making process⁴ or the management of the firm.⁵ Moreover, the

¹"About fifty per cent of the membership of the workers' councils are communist league members. Almost 100 per cent of plant managers are members of the league." Hoover, op. cit., 399.

²"The process by which the communist league decides who is to be appointed or 'elected' to what office in the economy...is...held secret." Ibid.

³E. Ward, "Workers' Management in Yugoslavia", The Journal of Political Economy, October, 1957, Vol. LXV/5, 377.

⁴Ibid., 378, 384, 386.

⁵Ibid., 377.

policy making powers of the workers' council are severely restricted by the local governments' influential interference into their affairs.¹ On the other hand, it has recently been asserted that "although many remained skeptical of the extent to which workers managed their factories in Yugoslavia, what happened indicated that they really did manage them to a considerable degree."²

We are inclined to choose a middle road between these two extremes and conclude that although the workers play a role in the management of the firm, this role is not as large as designated by the law. The basic committees within the League of Communists of Yugoslavia, which are set up in enterprises, villages, settlements, and institutions,³ are obliged "to fight for the fullest development of workers' and social self-management, and the...advancement of the working people."⁴ This obligation has served very well to control industry.

Because of this, it verifies the fact that the communist party plays a very important role in the guidance of the workers' councils.⁵ However, whatever the role of the workers may be, the workers' councils today "have fully

¹Ward, Yugoslavia...op. cit., 544.

²Neal, op. cit., 79.

³----- Statute of the League of Communists of Yugoslavia, (Adopted by the VII. Congress of the League of Yugoslav communists held from 22 to 26 April, 1958), Belgrad, no date, 14.

⁴Ibid, 16.

⁵Hoover, op. cit., 399-400.

assumed enterpreneurial functions and have become sovereign agents in the economic process."¹ The main area of their unchallenged authority seems to be that of profit sharing,² together with occasional power of dismissal over directors of firms.³ These councils are a basic feature of the Yugoslav politico-economic system and their role in the transformation of Yugoslavia into a modern state has been one of great importance.⁴

¹ Stanovnik, op. cit., 256.

² Ward, Workers...op. cit., 341, and Stanovnik, op. cit., 256.

³ Ibid.

⁴ Kardelj, Evolution...op. cit., 539.

2. Guiding Economic Development

Yugoslavia's Nationalistic rebellion against the Soviet-style politico-economic system and the concept of "our own roads to socialism," drastically altered the structural basis of Yugoslavia during the 1950's. The new Yugoslavia, as we have said earlier, wanted to blend the principles of laissez-faire with those of collectivism. The system resulting from this effort can be described as an "indirectly controlled market economy, with elements of Keynesianism and as well as of Marxism."¹ In this new system, the first important change was the release of the firm from its former constraints.² In other words, the "administrative management of economy" was abolished and the economy began to develop on the principle of decentralization with central planning.³ This new system sought to secure economic efficiency,⁴ and remove the shortcomings inherent in the previous system⁵--a system in which the

¹Neal, op. cit., 78.

²Ward, The Firm...op. cit., 567.

³Halm, op. cit., 251., and Kolak, op. cit., 60.

⁴Ward, loc. cit., 569.

⁵Davico, op. cit., 60; However, on the other hand, Yugoslav sources asserts that their experience with the command economy showed that in developing the economy of Yugoslavia, the "administrative management" played an important role. According to their argument, that system was essential to mobilize the available resources and to accumulate the necessary capital for further investment. See: Davico, op. cit.; Stanovnik, op. cit.; Kardelj, The Practice...op. cit.

initiative of the worker had been limited because the success of the firm had in no way bettered the worker's position,¹ and one in which lack of competition among firms had led to great inefficiency in the economy.²

With the introduction of management by the workers, the physical planning method was abandoned. Now, the central plan no longer orders the country's firms to fulfill previously determined output quotas; rather each firm draws up its own production plans.³ The central plan, merely lays down the general lines of the distribution of production and income;⁴ As a result, enterprises have a greater measure of independence in drawing up their own plans.⁵ This situation is eased even more by the fact that these enterprises are no longer obliged to fulfill output norms but rather are encouraged to become more profitable in their operations.⁶ In this framework each enterprise has a self-controlled operation.

¹Davico, op. cit., 60.

²Ward, The Firm...op. cit., 569.

³Ibid., 567.

⁴Kardelj, Evolution...op. cit., 584; Hoover, op. cit., 398, "this overall production targets are strictly advisory," Loucks, op. cit., 626.

⁵Davico, op. cit., 60; The production targets of its own plan is determined by the firm itself and the nonfulfillment of the targets does not invite any penalty from the central organs. Ward, The Firm...op. cit., 567.

⁶Ibid.

The firm is solely responsible for its production and sales; it can enter freely into contracts for the procurement of raw materials and/or for the sale of its output.¹ In the determination of prices of their products, firms are free "on the basis of market conditions."²

In the case of public service enterprises (transportation, communication, etc.) or for new enterprises in basic industries (iron-steel, mining, etc.), output and prices are centrally planned.³

The price system, due to its determination process, brings (intervention of) the state into the economy. Since the individual enterprise sets its own prices, an enterprise finding itself without competitors in supplying a particular market area could charge a higher price than it could if there was competition. In order to prevent monopolistic price charges by firms and to regulate the international trade activities, the government applies various kinds of legal⁴ and/or economic measures. The main economic measures are formal or informal price controls. This intervention, however, creates a distorted price structure, and the combination of these kinds of practices erases a sound basis for rational economic calculation in the economy.⁵

¹Ibid.

²Ibid; Loucks, op. cit., 626; Halm, op. cit., 251.

³Hoover, op. cit., 397; Established basic industries are left free in pricing and in the determination of the actual composition of the output: Loucks, op. cit., 626. (This fact holds for only early period.)

⁴New York Times, October 16, 1956.

⁵Ward, Yugoslavia...op. cit., 561.

The new system's main policy concerning investment decisions and the mobilization of resources are different from that of the old;¹ the consumption needs of the population gained importance and therefore the structure of investment was changed; profitability became the criterion in making investment decisions; the preservation of central control over the rate and the distribution of investment is still a basic objective of the government,² but the state financing of the investments were reduced; and finally investors began to be encouraged to undertake investment projects using a portion of their own funds.

Tito's reforms have greatly changed the character of Yugoslav society. At the beginning years of the reforms economic progress was remarkable. Since 1952, real national income has been increasing at a rate of above 6 per cent per annum.³ The very high rate of economic expansion was reached in 1957. It was favored by a sharp increase in agricultural production and a large foreign trade surplus; exports having increased in volume by as much as 41 per cent from 1953 to 1956, and risen a further 20 per cent by 1957.⁴

¹Ibid., 550-551.

²United Nations, Economic Survey of Europe in 1957, Geneva 1958, Chp. 1/43.

³Loc. cit., 527.

⁴All statistical figures are based on: United Nations' economic surveys of Europe in 1957, 1958, 1959, 1960, 1961. And United Nations' annual statistical Yearbook, 1960. And J.C. Campbell, "Yugoslavia: Crisis and Choice," Foreign Affairs, January 1963, Vol. 41/2.

The composition of exports has changed radically in favor of industrial commodities. In 1958, total output rose by 3 per cent over the 1957 level, a slower rate of growth than in the previous year, reflecting a 13 per cent fall in agricultural production as a result of severe drought. In 1958, the volume of exports increased by about 14 per cent, and could have gone up even faster if internal demand had not competed very strongly for available supplies. Imports rose almost as fast (by 13 per cent in volume), but a substantial improvement in the terms of trade helped to reduce the trade deficit. The year of 1959 was a turning point in Yugoslavia. Agriculture since this year has been a keen disappointment. Gross national products rose in 1960 by 8 per cent, whereas in 1959 the increase amounted to 18 per cent; agricultural output in 1960 was about 2 per cent larger than in 1957 (the previous peak year) and 15 per cent larger than in 1958 but it was 10 per cent less than 1959.

In 1959 industrial production rose by 15 per cent, and the price level also rose sharply. Two main reasons can be given for this: first administered prices rose, and second, sectoral demand pressures increased. For example, demand for construction materials exceeded supplies and their prices rose by some 15 per cent (annual average).

From 1950 to 1960 cost of living went up by 11 per cent and nominal wages by 20 per cent (real wages increased by 9 per cent). Registered unemployment (including persons partially unemployed) rose from 2.4 per cent in 1952 to 6.7 per cent in 1959.

Nevertheless, the 5 year plan covering the period of 1957-1961 was completed one year ahead of schedule. The economy had been very successful in the light of the planned targets. Indeed, the comparison of planned percentages and the actual achievements clearly establishes this fact. (See Table 14.)

TABLE 14

THE COMPARISON OF PLANNED PERCENTAGES
AND THE ACTUAL ACHIEVEMENTS

	Planned	Actual
National Income	54	60
Industrial Output	70	69
Agricultural Output	41	60
Exports	73	74
Imports	42	70
Personal Consumption	37	46
Investment was 11 per cent less than planned.		

A new plan covering the 1961-1966 period came into force on January 1, 1961. However, neither new investments nor the indefinite postponement of collectivization in agriculture brought about the necessary production that would have enabled the country to feed itself. The uncertainty in industry and a sharp fall in the rate of growth invited serious doubts about the validity of the system. "Something has [been] wrong with the supposedly happy combination of planning and use of the free market."¹

¹Campbell, op. cit., 385.

TABLE 15
SELECTED ECONOMIC INDICATORS FOR YUGOSLAVIA

Indicator Constant Prices	1961	1960	1961	1961	1962
	Index Number 1956=100	plan	plan	actual	plan
		Percentage Change From Previous Year			
Gross Material Product	165	6.2	12.5	5.5	16
Industrial Output	184	15.3	12.0	7.0	13
Output per worker in Industry	128	5.5	7.0	4.0	7
Agricultural Output	143	-10.0	16.0	-6.0	23
Exports-Value	172	19.0	8.4	-1.8	18
Imports-Value	144	42.0	-	9.0	6

Source: United Nations, Economic Survey of Europe in 1961, Geneva, 1962. Chp. 1/43.

Due to a severe drought, agricultural output, which makes up one-fourth of gross material product, fell by six per cent-- the decline being concentrated almost entirely on crops. Industrial output fell sharply from an annual rate of increase of 15 per cent in 1960, to 7 per cent in 1961. The gross material product fell far below the planned target, but not greatly below those registered in 1960.

The reasons for the deteriorating economic situation were several; the weather in 1959, 1960 and 1961 has caused crucial losses to agricultural product; individual firms and local governments have misdirected investment, and workers' councils have distributed profits in bonuses for themselves at the expense of needed investment; consumption,

prices, and wages have gone up while productivity was almost static; needed foreign exchange was wasted on nonessential imports; the curtailment of the western economic aid created uncertainty in the economy. The combination of these factors with the increasing foreign debt (in 1962 \$800 million) and the negative foreign trade balance (in 1962 \$167,000,000-- without counting imports of United States agricultural surplus paid for Dinars) made the situation worse; in other words, in 1962, Yugoslav experiment was far from producing "a magic formula for success."¹ The trend towards stagnation and international bankruptcy led Tito to take important steps in tightening the economy and increasing control of the bureaucratic political machinery--"the market has been a little too free."² The future trends are far from being predictable, since the functioning process of the economy now is ruled not by theoretical models but by the pragmatic considerations.

¹Campbell, op. cit., 386.

²Ibid.

VII. CONCLUSION

A study of economic systems suggests many different alternatives for the achievement of resource mobilization. The main difference between these alternatives lies in their differing institutional structures. The effects of different organizational forms on economic outcomes--evaluations of those effects being dependent upon the value judgments of decision-makers--are the decisive considerations in choosing a certain alternative. The value judgments one makes in choosing an economic system for an underdeveloped country include, by and large, the achievement of a high rate of economic development, the preservation of human rights and liberties, and the approximation to the longest possible extent of one distributive justice concept. The problem is to establish institutional arrangements that will enable the government to exercise responsibility for achieving these aims in such a way that the government will limit the use of its power and thereby prevent the deterioration of individual initiative and freedom. The role of government in achieving these aims is to supplement the market in those spheres in which its achievements are deficient. In other words, the role of government is to delineate the extent to which the market mechanism can allocate efficiently, enforce its decisions, and act directly in those cases in which a market mechanism is either not feasible or not possible.

The essential features of our mixed-economy model have been designed to form necessary minimum conditions in order to achieve these aims; they include: the centralization of investment decisions, the preservation of the market mechanism in modified form, the nationalization of the basic means of production and services, and finally, the right of the government to coordinate overall economic activity without causing any loss of effectiveness of the economic agents involved.

In Turkey, Ataturk's reform movements were aimed at changing organizational forms of the society in order to obtain more desirable economic outcomes. As a matter of fact, the outcomes of 1930's were indeed encouraging. The central control over the rate and the distribution of investment helped the economy gain momentum. Although from 1930 to 1946 there were at least four drought years the balance of foreign trade remained favorable and the rate of growth continued high. This situation was due to the extensive application of the statist policy, the establishment of the government ownership of the means of production, and the type of investment policy pursued. Governmental investment activities were devoted to those areas which were not necessarily profitable but were necessarily socially advantageous. The reason for this approach stemmed from the fact that the existing price structure, due to the immobility of the factors of production in the market, was arbitrary, and investment alternatives were being evaluated in terms of prices that have distorted scarcity relations.

Nevertheless, although the use of these prices gave wrong appraisals of the investment alternatives, and caused inefficient use of resources, the essential socially necessary investments were completed. One may assume that the gain to the society in terms of increase in the rate of economic development more than offset the loss caused by inefficient resource allocation.

Main emphasis was placed on capital goods industries rather than on consumer goods industries. The development was rapid and regular, and it could neither get under way nor continue with a continuous, though moderate, increase in the volume of investment in consumer goods industries (as was the case of 1950's Turkish experience). The influence of the structure of capital formation on economic development was very important. The heavy type of capital investment (which private firms either lacked the capability of or were unwilling to undertake) has proven to be particularly effective in starting, continuing, and accelerating economic development. A statistical comparison of the 1930 period with other periods establishes the fact that government ownership of the basic means of production and the capital invested through this ownership were decisive factors in the development process of Turkey. The success of the Turkey's economic development would have been negligible (such as 1920's) with only the economic activities of the private firms. The importance of the investment decisions made by the central authorities can be observed even in the period of the 1950's. Although at that time the economy had passed the take-off

stage (in 1938) and was moving toward maturity, the decrease of direct governmental activity in the economy caused a decrease in the rate of development.

During the establishment of the economic development process, political democracy was also a goal of Ataturk's. Freedom of thought was encouraged and criticism of the government was tolerated. In other words, the centrally guided economy did not prevent the government from having a democratic procedure as well as a democratic process.

Tito's reforms in Yugoslavia on the other hand, changing the existing mode of production as well as the organizational forms of the society, and relying on dictatorship tried to achieve a higher rate of growth. At first, complete destruction of the market mechanism created the abolition of scarcity prices, which caused inefficient resource allocation, poor evaluation of investment alternatives, the enlargement of the bureaucracy. Thus, political dictatorship was not helpful in bringing economic efficiency. Later, the organizational structure was altered, and more emphasis was placed on the market mechanism. The same objective, a higher rate of growth, was to be achieved by relying on planning based on the market mechanism.

The problem of economic development is one of resource mobilization. The real solution to this problem rests on the fact that neither market forces nor central direction alone can no longer be automatically taken for granted in achieving economic development in which the distributive justice and the political liberties are preserved. Any argument

contrary to this understanding cannot easily be demonstrated to be true by theoretical considerations alone, has never been documented by empirical evidence, and is in fact inconsistent with relevant empirical evidence as we have seen in Turkish and Yugoslavian economic development. Therefore, indeed, a mixed-economy is most likely to succeed in the development process of an underdeveloped country.

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