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Notes

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Chapter 1

1. See Krueger (1974a) for a trade-focused and exceptionally well-documented analysis of the Turkish economy from 1950 to 1971.

2. The initial conditions and origins of etatism are analyzed by Okyar (1965).

3. For an analysis of policy shifts in 1946–50, see Tekeli and Ilkin (1974).

4. The basic reference for national accounts from 1923 to 1948 is Bulutay et al. (1974).

5. Singer (1977) provides an interpretive study of the political context, economic policy, and performance in the 1940s and 1950s.

6. For empirical assessments of Turkey's import-substitution experience in the 1960s, see Krueger (1974a), Krueger and Tuncer (1980), and Celâsun (1983).

7. It should be noted that capital inflow figures in table 1.2 measure the net imports of goods and nonfactor services, and thus exclude interest payments and workers' remittances. In terms of current account deficits, capital inflows were moderate by cross-country standards and averaged about 1.5 to 2 percent of GNP

during 1963–73. The 1953 and 1963 actual data refer to 1952–54 and 1962–64 averages, respectively.

8. See Hatiboglu (1978) and Celâsun (1983) for price-distortion effects on sectoral income differentials.

9. Aksoy (1982) examines the deficit-financing requirements of agriculture-based public enterprises as part of a wider analysis of structural aspects of inflation in Turkey.

10. See Akyüz (1984) for a disaggregated analysis of Turkey's financial system and flow of funds for these benchmark years. In reviewing table 1.4, it may be noted that the share of the monetary system in the total assets of the financial system in 1963 stood at around 39 percent in developed economies and at around 69 percent in developing countries. For the U.S., Akyüz reports that the share of equities and bonds in total issues of the domestic real sector was 37 percent in 1900 and 46 percent in 1960. The latter share for Turkey averaged around 18 percent in 1970–81.

11. Walstedt (1980) provides a detailed evaluation of the economic and financial performance of SEEs from 1960 to 1974. For a review of SEE reform proposals and legislation, see Karataş (1986).

Chapter 2

1. For an analytical account that stresses the lack of exchange rate and fiscal adjustment to the first oil crisis, see Lewis (1986). This study neglects the role of the borrowing strategy which we will emphasize here.

2. While the terms-of-trade effect has direct welfare consequences, the reduction in exports per se does not, unless the domestic economy has unemployment exacerbated by lower foreign demand or the exportables sector makes oligopolistic profits. See Dornbusch (1985) for a discussion of this point.

3. This is a conservative procedure because the trend rate for 1972–74 was considerably lower than for a time span stretching further back. Also, we are assuming a constant dollar value of remittances despite the depreciation of the dollar against the deutsche mark from 1974 to 1976.

4. The ratios of foreign savings to GNP displayed in table 2.7 are very close, but not identical, to the current account ratios of table 2.6 due to conceptual differences in the measurement of the current account in the national accounts and the balance of payments, respectively.

5. These numbers do not add up exactly due to rounding.

6. The discrepancy between the public savings-investment gap displayed in the national accounts and the PSBR in table 2.8 arises from several sources. For example, the national accounts treat the joint ventures of state enterprises with private firms as private sector activities. The item "public-private capital transfers" in table 2.8 adjusts for that.

7. These numbers are higher than those reported in table 2.5 because they include public enterprises and local governments alongside the consolidated central government.

8. It should be kept in mind that the term "public sector" here excludes the central bank.

9. Prior to May 1975, a limited program of convertible deposits for Turkish residents and workers abroad already existed. This explains the presence of CTLD items in table 2.10 prior to 1975.

10. There is in reality an additional step. The exchange guarantee implies that the central bank, acting on behalf of the Treasury, takes over the foreign exchange liability of the commercial bank, leaving it with a liability denominated in liras.

11. A World Bank (1980, 209) report suggests the average gestation lag to be around two-and-a-half years.

12. One U.S. banker is quoted as having commented: "I can't understand why the American banks aren't rushing into this market. We can net 6 percent with no difficulty at all" (Brennan 1976, 84).

13. Due to the shortage of foreign exchange, payments on maturing CTLDs, but not on interest, were apparently stopped by the central bank in July 1977 (Bleakley 1978, 50).

14. Notice that the progressive increase in these front-end fees is indicative of a positively sloped supply curve on the part of foreign lenders. In view of country-risk considerations, banks must have been willing to increase their exposure to Turkey only by being compensated for doing so.

15. Stability is also possible with signs reversed for both expressions, i.e., $\lambda < q^*/\beta$ and $(1 - \alpha\mu\lambda) < 0$. But in this case any negative shock to the current account will lead to *de*cumulation of foreign debt (i.e., current account surpluses), so we ignore it.

16. This possibility depends on the precise configuration of the parameters involved and, in particular, on the foreign interest rate, q^*. Remember that q^* was actually being driven up by Turkish borrowers willing to pay increasingly higher front-end fees. This aspect of the process, not captured in the simple model discussed here, would naturally make stability more problematic.

17. See Celâsun (1980), table 1.

18. The exchange guarantee was finally lifted, but not for existing obligations, in February 1978.

Chapter 3

1. A good example of the overambitiousness of the authorities is provided by the targets of the fourth five-year plan. Announced in September 1978 in the midst of a foreign exchange crisis, the plan foresaw an 8 percent annual average rate of growth. See Celâsun (1980, tables 2 and 3) for a comparison of planned with actual macro aggregates for 1978 and 1979.

2. Data on black-market rates are from Pick's *Currency Yearbook*.

3. The figures here for net foreign assets and domestic assets have been adjusted to eliminate the effects of valuation changes. Hence, the changes in foreign assets are net of valuation effects, as are the changes in domestic assets. Since these adjustments completely offset each other, the figures on the money base remain unaltered.

4. Since import deposits and some other items are not included under either domestic or foreign assets, the growth rate of base money is not constrained to lie in between the growth rates of these two.

5. We are grateful to Marta Castello Branco for drawing this passage to our attention.

6. The agricultural sector is a net exporter, and therefore benefits from real depreciations.

Chapter 4

1. See, e.g., Balassa (1983) and Kopits (1986) for the Turkish experience, and Michalopoulos (1987) for the World Bank's perceptions of adjustment and growth in developing countries in the mid-1980s.

2. Besides Balassa (1983) and Kopits (1986), see also the following studies and evaluations of Turkey's post-1980 economic experience: Boratav (1986), Şenşes (1983), Okyar (1983), Onis (1986), World Bank (1982, 1983a), Euromoney (1982), Yagci et al. (1985), and various issues of OECD Economic Surveys on Turkey.

3. See Akder (1987) for an analysis of Turkey's export expansion to the Middle East. Akder also provides estimates for similarity indexes of exports to the Middle East and the European Community.

4. See Syrquin (1986) and Celâsun (1983) for analyses of structural transformation in Latin America and Turkey, respectively.

5. See IMF (1986).

6. See a candid interview with Turgut Ozal on the introduction of the 1980 policy package in Euromoney (1982).

7. See Okyar (1983) and Kopits (1986) on the suspension of labor union activities and wage negotiations under collective bargaining in the post-September 1980 military period. Okyar and Kopits also discuss the wage settlement arrangements under the High Arbitration Council, which was established by the military government.

8. For a review of FDI activities, see Erdilek (1986).

9. See, e.g., McKinnon (1982).

10. Evidence on this will be provided in chapter 5.

11. See TUSIAD (1986).

12. These brokers offered very high yields on CDs which they bought wholesale from commercial banks and then invested the receipts in doubtful ventures. The scheme was in effect a Ponzi game and collapsed as soon as the inflow of new deposits fell short of interest payments coming due.

Chapter 5

1. For price distortions before the mid-1980s, see the study by Yagci (1984), which provides quantitative measures on the incidence of the protection-subsidy system in Turkish manufacturing in 1981.

2. See Conway (1987) for a quantitative analysis built around the income-expenditure framework.

3. See also the supplementary tables in the statistical appendix.

4. For an alternative presentation for the first two years of the program, see also table 9.2. Notice that the debt relief in question includes only the reschedulings undertaken with respect to liabilities to *official* creditors. The effect of the CTLD reschedulings does not show up here. Their inclusion would naturally magnify the role of debt relief. See chapter 9 for more information.

5. This is brought out in a World Bank (1983b) survey of 127 companies.

6. In the estimation of income velocities and multipliers in table 5.8, year-end values of monetary variables are used.

7. See Celâsun (1986b) for the estimated values of intersectoral income shifts induced by changes in domestic terms of trade during 1973–83. It may furthermore

be noted that the value added of the public services sector comprises government employee salaries.

8. In Turkey's official planning data for the labor market, agricultural employment includes underemployed labor (or disguised unemployment) in this sector. Hence, the surplus labor shown in table 5.10 corresponds to urban unemployment. The urban labor supply is the difference between total labor supply and agricultural labor.

9. The share of formal wage laborers (including government employees) in total economywide employment was 24.8 percent in 1978. For disaggregated labor data, see Celâsun (1986a).

Chapter 6

1. We gratefully acknowledge the computer programming support of Tevfik Yaprak in undertaking the study summarized in this chapter.

2. The actual data in table 6.1 may show minor deviations from actual data reported elsewhere in this monograph, mainly due to differences in data sources. The current deficit figures in this table come from the official format for the balance of payments that was used in the pre-1985 period.

3. The indicators for the functional distribution of income estimated by using this model have been previously reported in table 5.10.

4. For an econometric analysis of Turkish trade deficits in the pre-1980 period, see Conway (1986).

5. Salaries of government employees are maintained at their Base Run values in all experiments.

Chapter 7

1. For useful accounts of the trade regime in Turkey, see Krueger (1974a) and Baysan and Blitzer (forthcoming).

2. For a detailed study of the structure of domestic resource costs and effective rates of protection in Turkish industry in 1981, see Yagci (1984).

3. Krueger estimated that the rents on import licenses amounted to 15 percent of Turkish GNP in 1968.

4. The balance is exports of the mining sector.

5. See World Bank (1983a), vol. 2, table 8.10.

6. The proxy was constructed by using a constant value of 10 percent for 1970–79, and using Milanovic's (1986) estimates for the period thereafter. Part of the measurement error could be due to the fact that Milanovic's estimates are for ex post subsidies, whereas export behavior is determined by anticipated subsidies.

7. Kopits (1987, fn. 49) reports a much higher long-run export supply elasticity of 2.1 for the shorter period 1977–84, but does not present the regression he estimated. In our regressions, the real exchange rate is no longer statistically significant when lagged more than one quarter (which is consistent with a speedy response arising from excess capacity). We also find that the inclusion of dummy variables (for seasonal effects and for 1981:II) reduces substantially the estimated export supply elasticity.

8. When exports are growing rapidly, the presence of delivery lags could lead to substantial divergences between partner-country data. See McDonald (1985, fn. 6). McDonald finds Turkish primary exports to have been susceptible to the incentive to smuggle during the earlier 1962–79 period.

Chapter 8

1. See High Control Board (1987) for the shares of public services and SEEs in value added and employment.
2. In pre-1984 data, off-budget subsidies to SEEs are included as a negative item in current transfers. Thus, the estimates for public disposable income are conceptually consistent indicators of the public sector's net spendable income.
3. Tables A.7 and A.8 in the statistical appendix show the details of the PSBR estimates under variant procedure A for the 1973–85 period. For lack of data, the SEE arrears are included in the ''other'' category of financing items.
4. In particular, the sources of the very large figure for nondebt capital transfers in 1981, as reported in SPO (1985), could not be verified.
5. See OECD (1984) for a disaggregated review of post-1980 trends in Turkish public finance.
6. In expressing the public debt stock as a percentage of GNP, the year-end dollar values of external debt have been converted to domestic currency by using annual average exchange rates. The figures for domestic debt are year-end data.
7. See Central bank (1987) for a review of capital and money markets in 1985–86.
8. SPO (1985) provides private disposable income, savings, and consumption series both in current and in constant 1983 prices. These series imply, however, somewhat spurious price deflators for private savings. Hence, we have chosen to use current price data in the computation of annual average saving propensities.
9. See Gazioglu (1986) and Maktavli (1986) for regression studies on private consumption and savings for the earlier period. The ex ante and ex post savings ratios in the SPO Annual Programs (from 1973 to 1979) are reviewed in Celâsun (1980).
10. See Ekinci (1987) for a recent macroeconometric modeling study on Turkey, which treats private savings as a variable adjusting to a specified investment behavior.

Chapter 9

1. The only significant exception is a $407 million syndicated loan negotiated in 1979 jointly with a rescheduling agreement for the CTLDs.
2. Debt relief here, as in chapter 5, refers to the reschedulings undertaken with official creditors only. There were additional renegotiations over short-term debt owed to private sources (e.g., CTLDs and suppliers' arrears), but these are not included here. See section 9.2 below for an account of the reschedulings.
3. World Bank (1983a), vol. 2, p. 32.
4. As a member of the OECD, Turkey objected to these negotiations taking place under the auspices of the Paris Club. They were carried out instead in the OECD Consortium for Turkey, even though the general principles followed were the same.
5. Apparently, the central bank still collects from domestic commercial banks the Turkish lira equivalent of the principal repayments on these CTLDs, but at the original exchange rate! Given the thirtyfold depreciation of the lira against the U.S. dollar in the intervening period, these amount to token payments only.
6. The eight banks were Morgan Guaranty, Citibank, Deutsche Bank, Dresdner Bank, Chase Manhattan, Barclays Bank, Swiss Bank Corp., and Union Bank of Switzerland. For an entertaining account of the negotiations, see Bleakley (1978).
7. Stories about the situation circulated at the time both in the domestic and foreign press. For one account, see *Business Week*, 1 April 1978, p. 92.

8. See *New York Times*, 2 June 1978, p. A1.

9. The quote is from a *New York Times* editorial of 3 January 1979.

10. The recurring need to obtain the IMF's "green light" gave rise to the following joke in Turkey, related to Libyan president Qaddafi's reported promise to send a vast amount of assistance to Turkey were Ecevit to break ties with the U.S. Ecevit was said to have asked Qaddafi when the Libyan money would start flowing in. His answer was: "As soon as you reach agreement with the IMF." This is reported in *Euromoney*, June 1979, p. 43.

11. The original is titled "Ecevit schlägt Dollar aus der turkischen Geographie," *Stuttgarter Zeitung*, 28 June 1979, p. 4. While wholesale assistance started when Ecevit was prime minister, it is difficult to give him credit for the later flows, as he left office in October 1979.

12. A later interview with Adnan Başer Kafaoğlu, the finance minister in power at the time, sheds some interesting light on the attitude of the authorities toward IMF conditionality. Kafaoğlu claims that the central bank's tricks originated during the government of Ecevit in 1978–79. Upon taking office and discovering the cash transactions between the central bank and the Agricultural Bank, he reports being amused by the fact that the transactions involved the physical transportation of cash from one place to the other. Whereupon, he appears to have given instructions that the transactions be carried out simply by writing out and canceling receipts. This way, he reasoned, there was no risk that the money would get stolen along the way! See interview with Adnan Başer Kafaoğlu in Colaşan (1985).

13. One banker is quoted in the aftermath of the CTLD episode as saying: "With $2.1 billion in foreign exchange reserves at the end of 1974, Turkey could have gone for medium-term loans beginning in early 1975—and still kept to its industrialization plan" (Bleakley 1978, 49).

14. The administrative background is described more fully in Ayse Oktem (1985).

15. Since part of the Dresdner accounts have maturities exceeding one year, they are not, technically speaking, short term. The central bank has recently reclassified Dresdner accounts with longer than a year's maturity as medium-term debt.

16. An interesting question is whether the Dresdner Bank liabilities should be properly considered as *foreign* debt, as they are ultimately the central bank's liabilities to Turkish nationals. Presumably, the intermediation of the Dresdner Bank was supposed to provide an element of confidence to the Turkish workers who may otherwise have been less inclined to repatriate their savings home. It appears, however, that the Dresdner Bank is not liable for the deposits in case the central bank stops servicing them.

17. *Business Week*, 15 December 1980. Quoted in Şevket Pamuk (1981, 27).

Chapter 10

1. The weighted average debt/GDP, debt/exports, and debt-service ratios for the heavily indebted Latin American countries stood at 31.3, 271.5, and 153.8 percent, respectively, in 1981 (Sachs 1985).

2. This refers to the Dresdner Bank scheme and the foreign exchange deposit accounts in domestic banks of Turkish workers abroad. See table A.17 in the statistical appendix.

3. Two explanations of the high real interest rates are the continuous depreciation of the Turkish lira and the large PSBR. These two explanations are complementary if

we view foreign and Turkish assets as imperfect substitutes for each other. The Turkish real rate of interest will then exceed the world real interest rate by a margin that equals the expected real depreciation of the domestic currency plus a risk premium, the latter being an increasing function of the outstanding stock of the government's domestic debt.

4. See, for example, the analysis in de Melo and Robinson (1982).

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