

1950-1960: Inflationary Period in Democrat Era

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Abstract

This paper presents the interpretation of inflation between 1950 and 1960 period in Turkey. In this interpretation, the economic environment of Turkey during that period, the effects and consequences of this environment to inflation was analysed. Government's revolutionary investments in the field of agriculture and infrastructure were made following a populist approach, meanwhile with the chain of open budget, issuing banknotes, balance of payment depressions and dependency to foreign debts the macroeconomic imbalances occurred and the chronicle disease of the Turkish economy 'inflation' was born

Keywords Inflation, Trade deficit, investment, Democrat Party.

I. INTRODUCTION

Turkish Economy faced with inflationist effect in several terms because of either wrong policies or macroeconomic imbalances occurred in foreign markets. These wrong policies ended up as inflation, appeared as populist approach which carried out for coming to power instead of solving the problem. Especially after the 2nd World War the delayed consumption needs were revealed with which the economies experienced under inflationist pressure. The population in several countries which had to live under pressure and poverty for a long term started to expect to live in wealth because of increasing foreign trade volumes and substitution of cold war instead of battle.

The aim of this paper is to present the interpretation of inflation between 1950 and 1960 period in Turkey. In this interpretation, the economic environment of Turkey during that period, the effects and consequences of this environment to inflation will be analysed.

II. THE INFLATIONIST PERIOD BETWEEN 1950–1960 IN TURKEY

During the post-war term after the 2nd World War national and international forces caused considerable political and economic changes together. Most of the social groups in Turkey were dissatisfied with the single party regime in the year 1946. Impoverished part of the villager population in rural areas were badly

effected by heavy taxes of war period and the governmental demand for supplying provisions for urban areas. The hatred and fright against police soldiers and tax collectors arose more than ever. The regime who tried for settling a dispute with these groups, passed a law proposal from the parliament which authorizes the government for redistribution of lands over fifty acres. This law proposal played an important role in revealing of clear opposition against single party control. "The single-party regime under the leadership of President İnönü agreeing on opening the political regime to competition between different political parties, took the first step for multi-party election system. The opposition coalesced under the leadership of feudal leaders and representatives of business community founded the Democrat Party." [1]

In the year 1950 the Democrat Party government which was giving priority to private enterprise and private capital in economic life came to power. In this period sectors in which private enterprises or governmental enterprises are provided to operate in harmony and as complimentary are determined. The point of view is approved which support governmental enterprises and businesses to take role where private sector or capital is not willing to operate in because of insufficient capital or less profitable but necessary for economic development and national defense. [2]

According to majority the victory of Democrat Party in 1950 elections was a turning point for economic affairs. Actually the real turning point was Republican People's Party's leaving behind the 3rd five year development plan which was made during previous summer term and based on etatistical principles and giving priority to private sector and agricultural policies. After coming to power Democrat Party carried on these policies with greater enthusiasm. One of the crucial changes made by Democrat Party was the liberalization of imports and especially the imports of consumption goods. The components which were the most serious support for the new government for this change are considerable volume of foreign exchange reserves as a consequence of firm policies held during 2nd World War, improvement in the terms of foreign trade after 1947 and the consequences of Korea War in the international markets which supported Turkish exports to increase until 1953.

Menderes was mistaken to consider that creating a liberal capitalism apart from state capitalism was solely a law oriented matter. According to Menderes, passing the precautions that no more state enterprises in both public sector and enterprises constituting fundamental industry, businessman and entrepreneurs will do what is necessary and private sector will come out immediately. Members of Democrat Party accelerated the inducement process of foreign capital investments as usual. They thought that just after a government which feeling sympathy to private sector comes to power, foreign capital flow to Turkey will be on a large scale. However, they couldn't meet their expectations from local investors nor from the foreign investors. But they were optimistic and they believed that in order to attract large scale of foreign investment in Turkey (they considered that vital for Turkish Economy), they only had to change the psychological climate. On August 2 of 1951, Democrat Party took the first step to support the inflow of foreign trade by liberalizing the Foreign Trade Inducement Act. This changed act was giving considerable support to foreign investments on the basis of energy resources (including oil) in the Turkish Industry. Moreover, the regulations were permitting the foreign investors for transferring up to 10 percent of their annual profits as foreign currency.

Even on that time, it was clear for most of the people that the provisions of this act is not capable enough to allure great deal of foreign direct investment inflows which will change the economy considerably. The government realized this immediately and decided to liberalize the policies more: managing the Turkey's oil resources was a carrot for foreign investors. Democrat Party declared that the government will sign agreements with foreign companies which are willing to transfer their know-how and capital to Turkey. It was an important concession because the government was leaving the protectionist principle for the vital resources like oil.

Pamuk [1] argues that the most important change realized by the Democrat Party is the priority given to agricultural development. The economic policies of Democrat Party in 1950's may be classified in three different periods:

A. 1947–1953 The boost in agricultural industry and infrastructure progress

1) The boost in agricultural industry:

According to Metin [3], in this period the wealth of the nation was more related to increase in the harvest quantity. In this term production levels before 2nd World War met and agricultural production was more than doubled. The most important reason of this high performance is the 55 percent opening of the area of total planted land as a result of opening of unfruitful

lands to agriculture. The expansion of agricultural lands is supported by two complementary government policies one in favor of small villagers and other in favor of feudal leaders. The first was "Giving Land to Farmers Act", the second is the aid of the Marshall Plan. Giving Land to Farmers Act was thought as a land reform act.

The objectives of this act were giving the ownership of a land to foreseen farmers and other people in the act in order to subsist with their families and use their workforce; give foundation-repair-management loans and living or lifeless inventory stock to ones which have adequate land but lack of capital and factors of production and finally obtain the land of the country being cultivated continuously [4]. Lands distributed and the transfer of state owned pasture and grasslands to the villagers and rural cooperatives under this act were nearly half of the agricultural land increase after the War. This policy of the government assisted small land ownership in Anatolia to gain strength except the southeastern part where feudal leaders and tribe chiefs are dominant.

The second objective was use of the aids of Marshall Plan for import of agricultural machineries and especially tractor by Democrat Party Government. Most of the tractors were purchased by wealthy farmers taking the advantages of convenient loans provided by Agricultural Bank and used for expanding the agricultural lands. The statistics indicating the boost in agriculture are stated below Table;

Table: 1 Boost in Agriculture 1949-1951

	1945 -1949	End of 1951
Grain Planted Lands	7,5 million hectares	9 million hectares
Cotton Planted Lands	305000 hectares	642000 hectares
	1949	End of 1951
Wheat Production	2,5 million tones	5,6 million tones
Barley Production	1,2 million tones	2,7 million tones
Rice Production	58000 tones	70000 tones
Number of Tractors	6000	25000
Agricultural Loans	412 million tones	820 million tones

When Democrat Party came to power in May of 1950 there were six thousand tractors in the country. Two years later in May 1952 twenty five thousand tractors and many agricultural machines and combine harvesters were in use. Total volume of agricultural loans was increased from 412 million TL's in 1950 to 820 million TL's in 1952. 100 percent of increase was

obtained in grain crops and industrial products. Meanwhile irrigation investments were accelerated, it was also accelerated the use of fertilizers in agriculture and seed improvement. Not only in Turkey but also in foreign markets Turkey was considered as a warehouse of grain in the future, institutions were founded to facilitate grain exports. These progresses deserved to be called as agricultural revolution of the republic period.

Democrat Party made agriculture the headstone for their economic power and this was a natural situation for a country in which 80 percent of the work power is in agricultural industry and %50-55 of its GNP comes from agriculture. But Democrat Party did no attempts for creation of an infrastructure for Turkish agriculture as in industrialization by irrigation or building adequate fertilizer factories. This requires a long-term program instead Democrat Party was interested in rapid production increase. Short term policies were very successful and between the years 1951 and 1954 production increased rapidly. However, only 7% of the increase in the production arose from improvement works, 36% from increasing cultivated lands, 32% from weather conditions, 10% from mechanization and 10% from transportation. The government believed that with the increase in the purchasing power of agricultural industry, the demand of industrial products and consumption goods will increase.

2) Infrastructure Progress:

The Democrat Party Government were facilitating boost in the agricultural industry and on the other hand gave importance on infrastructure progress and an extensive infrastructure program was brought into force. By benchmarking the American Organization and with the support of a foreign aid State Directorate of Highways was founded, a wide highway network was planned and the investments and maintenance services for highways were accelerated. The attempts in energy and irrigation areas were also increased. During the ten year long governance of the Democrat Party the length of highways were increased by 30%, electricity production increased by 2,5 times, cement production increased by 4 times and iron and steel production increased by 70%. In the below table: 2 infrastructural development figures are stated statistically.

Table: 2 Infrastructure Investments, 1950–1960

	1950	1960
Length of Highway	47000 km	61500 km
Passenger Share of Highway	%46	%67
Cargo Share of Highway	%17	%37
Electricity	790 million	2815 million

Production	kwh	kwh
Cement Production	395000 tones	2.038 million tones
Iron and Steel Production	310.000 tones	531.000 tones

In 1950 there was an important innovation for the financing of industrialization. Industrial Development Bank of Turkey was established with the support of Turkish government which was the first implementation of the development bank model for financing the industry constituted by the World Bank. Mission of the Bank is promoting the growth and development of the private sector by long term loans and by giving technical support; besides encouraging and assisting the participation of local and foreign capital to participate in Turkish companies and contributing to the growth of the capital markets in Turkey. The bank succeeded in a very short term. Besides being an intermediate for the large scales of investment loans of World Bank and other foreign financial institutions, the bank brought considerable innovations in the financing field of industrialization. Together with these positive events it is seen that the crucial reforms declared in the programs of the party and the government were being forgotten. One of them was the promise for the privatization of state enterprises and institutions promptly. The balanced budget policy which was carefully carried out except the 2nd World War period between 1939 and 1943 was left, and the priority was given to Central Bank financing (issuing banknotes for expenditures) in order to finance the expenses of SEE's (State Economic Enterprises) and agricultural support programs.

B. 1954 – August 1958 Internal and External Economic Depressions Period

After the year 1953 the favorable conditions disappeared suddenly and the inflation ratio started to increased compared with the previous periods. With the ending of the Korea War demand of the international markets was slightly slow down and the prices of exporting goods also started to fell down. The foreign exchange reserves took over, increasing foreign aid, the terms of trade which develop in favor of Turkey because of Korea War, increased demand for saving money because of developing economic facilities and economic stability prevented the reflection of the rapidly growing emission volume to the rise of prices for a while.

However, beginning from the year 1954 the fortune of the Democrat Party turned out to be a misfortune. The drought in 1954 ended as a 20% decrease in the production. The problems for the maintenance of the tractors were arisen and erosion began in the new slanting cultivated lands. Only two

years ago Turkey was considered as a grains warehouse of the world, began to import wheat with the assistance of America and the grains silos constructed for exports was turned into import silos.

Dry-farming that is totally lack of using artificial fertilizer continued for years without any progress during 1950's. Irrigation was not a priority for the government during that period. In the end of 1950's only 5,5% of the cultivated lands were making humid-farming. The change in the convenient climate conditions brought out a stagnation and also recession in agricultural production. Moreover, in the second half of 1950's when the most profitable times were existed for agriculture, the rate of increase of cultivated land volume began to decrease dramatically. For these reason fluctuations happened in the volume of agricultural production and there were no increase trend until the beginning of 1960's. "During that period the annual growth rate of agricultural production was only 2%" [5]. It was a loss for the agriculture of Turkey to wait until the middle of 1960's when more intensive agricultural production methods are carried out with chemical fertilizers and more fruitful seeds after reaching its limits for expanding the cultivated lands for continuous production growth. On this stage the government agreed on carrying out subsidy programs for wheat purchase to protect the farmers from price fluctuations instead of agreeing the farmers to stay in a lower income level who constituted more than 2/3 of voter group. After the year 1954 these subsidy programs became the most important governmental policies which influencing agricultural income. The financing of these programs were obtained from the loans given to the Agricultural Products Office which were buying the lower priced wheat and distributing to urban areas by the Central Bank instead of direct financing from the budget. The role of these subsidies on the inflation wave began after the middle of 1950's caused many arguments. Previous observers were emphasizing that the loan volume given from the Central Bank to Agricultural Products Office and which is not paid back is equal to volume of the rise in the money supply during that period. But according to Hansen, the loans given to private sector including the cooperatives by depository banks were the most serious guilty [6].

The increasing demand in the country obtained economic growth for several more years. But during that period the national currency reserved over valued so the exports could not develop and liberalized import regime made the foreign currency reserves run out rapidly. When the imports began to be limited by the government, economy ended in a serious balance of payment crises with the absence of the basic consumption goods after abundance existed in the beginning of 1950's. Foreign deficit was growing

because of the slowing down of exports, obligation of paying the interest of foreign loans and rising import demand. In such a situation the prices began to rise rapidly after the year 1954. The first reaction of the government was keeping on the economic programs, even charismatic projects for reconstruction of İstanbul and overcoming the crises with the help of a serious foreign loan or aid. With this expectation the president visited America in the year of 1954. The response was not helpful. The institutions were recommending Turkey to recover although Turkey was a model country for economic development just a few years ago.

A more liberal economic model experience ended with a balance of payments crises existed during the middle of 1950's. In the middle of this scarcity and strait born from serious limitations brought for the imports, local manufacturing industry tried to produce some products which were abundantly imported just several years ago. In this way, industrialization by import substitution policy is returned necessarily but not supported by the government frankly.

In the below displayed table (Table 3) Turkey's export, import and trade deficit figures are shown in this depression period existed during the years between 1954 and 1958.

Table 3: Export, Import and Trade Deficit (indicated as million TL)

	Export	Import	Trade Deficit
1954	938	1339	-401
1955	877	1393	-516
1956	854	1141	-287
1957	967	1112	-145
1958	692	882	-190

The years in which import substitution began actually is named as 1954-1962 sub-period. In this period under the depressive conditions of the model giving priority to agriculture and foreign trade, an economic model using the SEE's but progressing under the control of private sector is foreseen. "Besides the stagnation in agriculture, the growth of the manufacture industry was also limited compared with the years of 1960's. Average annual growth rate of GNP didn't exceed 4%." [5].

C. August 1958 – May 1960 Stabilization Program:

Following the trade boost related to private sector activities at the beginning of 1950's, the export and import began to fall at the middle of 1950's. A high inflation occurred in 1956 as a result of limiting the consumer goods. The economy faced with a financial deficit because of this situation.

"The government brought forward some alternatives for devaluation:

1. Constituting balance of payment

2. Financial controls and budget economy held by Central Bank
3. Abolishment of subsidies
4. Limitation of loans (including the agricultural loans)
5. Rise in the qualified control
6. Giving priority to export and import facilities with an economic income” [3].

Although the government negotiated with International Monetary Fund (IMF) and Organization for Economic Co-operation and Development (OECD) for loan and foreign currency aids in the years between 1956 and 1958, resisted on not to make a devaluation which these institutions required till the following days after 1957 elections.

The government tried to take control of the high prices which creating deficit in public by preserving the low price level of State Economic Enterprises. Nearly for two years the government tried not to make devaluation and inspected the prices of under the counter not to rise, the credibility over international markets not to decrease and inventories not to vanish.

For this reason the depression continued for several more years. The volume of the devaluation made in 1958 was an indicator for the level of over valued national currency. Turkish Liras was devaluated against dollar from 2,8 to 9 [7]. “The other decisions were more liberal import regime, reduction of money supply and budget expenditures, the increase of the prices of the SEE’s, freezing the bank loans and consolidating the foreign loans.” [8]. Besides stabilization program was prepared in August 1958 because of the balance of payment problems. This recovery operation was successful and stabilization was obtained.

III. THE YEARS 1950-1960: THE CONSEQUENCES OF INFLATION

It can be observed that there is a correlation between monetary variables and price level during the years 1950 and 1961. In the year of 1950 Turkish Economy was in equilibrium depending on the aggregated demand, aggregated supply, price level and international payments. But after 1950, demand surplus in the economy occurred because of increase of state share in investments and general economic plan of the government [9]. In table 4 shown below wholesale price indices and cost of living indices are stated starting from 1948 to 1962.

When the figure is examined it is observed that wholesale price indices were raised for 170% and cost

of living indices were raised for 157% during the 1950-1962 years. The raise till the year 1953 was negligible but the period beginning with 1954 both indices began to rise in acceleration. “Inflation was usually seen in industries such as paper, chemistry, metal and metal products, export goods and construction.” [10]. The state investments in the sugar and cement industry provided to meet the demand level for these two products.

The 1954-1961 years are the years where the growth rate of national output was considerably low compared to previous periods or forthcoming periods. The average growth rate of national output for this period is 4,4%. This rate was considered as a stagnation atmosphere by the social groups which were accustomed to high growth performance after post-war period. The main indicators of saving way and growth rate on which economy is dependent are external oriented. According to Boratav [11], since the economy is becoming more dependent on imported goods inputs instead of industrialized consumption goods imports when obstacles occur blocking this input inflows, the rate of growth will decrease necessarily.

Both export volume and ratio of exports to GNP declined after 1954 because of stagnation in the agricultural products and unfavorable developments in world market. But during these stagnation days’ government in Turkey found aids from country to country or dept in the frame of NATO and OECD and with some quantity of indirect investments these funds are used for financing the foreign deficits. [8]. Government also did not make the citizens to feel the sragnation atmosphere by not cutting its expenditures, and when private sector followed government, economic activity did not slow down so much as we can see from the figure below;

With these developments in the years of 1950 migration from rural areas to urban areas accelerated very rapidly. It had been a long term argument if this migration was arisen from pushing power of rural areas or attracting power of urban areas.

Besides it must not be forgotten that the conditions of rural areas has a very large variation depending on the region. Nevertheless, distribution of land to small villagers, expansion of cultivated lands considerably and great deal of income increase in the agricultural sector, under this migration process makes us think that attracting power of urban areas played a more important role. The development of highways also contributed to migration.

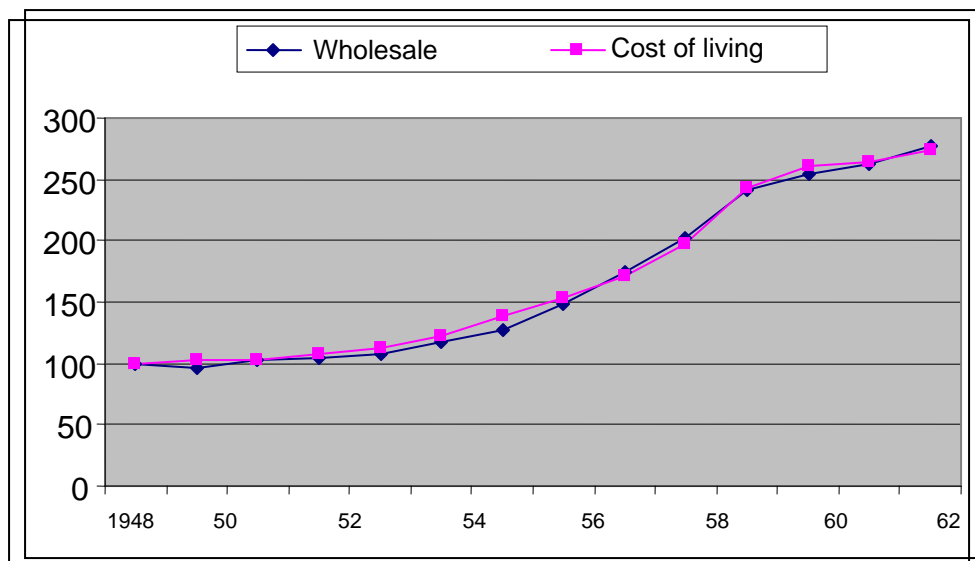


Figure 1: Wholesale Price and Cost of Living Indices

Table 4: Democrat Decade: 1950-1960

Years		Number of Establishments	Fixed Capital Formation (% of total)	Number of Workers
1950	Public	130	54.4	76033
	Private	2515	45.6	86826
1952	Public	115	46.6	82115
	Private	2913	53.4	99741
1954	Public	146	59.4	86161
	Private	3704	40.6	130960
1956	Public	169	61.1	105520
	Private	4443	38.9	136058
1958	Public	195	57	117852
	Private	4926	43	172869

The change in economy policy occurred in 1950 was also seen in monetary and credit policy and “the maximum interest rates which will be applied for the bank loans is reduced from 8,5% to 7% (from 12% to 9% for the open loans); the maximum interest rate for the deposits without a fixed term or up to 3 months is reduced from 4,5% to 2,5% and for longer terms than 3 months interest rates varying between 2,75% - 4% is determined” [2].

Relinquishing of investments and slowing down the employment in labor force market, both value of labor is decreased and difficulties rose because of the economic uncertainty environment made the labor force work unproductively and hopelessly. (With dismissing risk)

Perhaps the heaviest influence was in social life. Problems that effecting the society deeply occurred with the inflation, such as: hopeless people, self-seeking relationships in social and political life, the loss of solidarity soul and no more helping each other,

personal relations based on materialist incentives, the loss of trust and respect, impoverishment of people because of devaluation in national currency, migration of labor force to urban areas because of business opportunities only in cities, shanty houses, deformed urbanization because of lack of funds for infrastructure investments, moral depression, the funds running away from investment goes to rent, people want to make profit from money itself without running a business.

IV. CONCLUSION

The most important reason of inflation that Turkey faced with between the years 1950-1960 is arisen by governmental policies. The government's economy policy was tried to be carried out along with obstacles in resource strait. The government steered foreign resources for solving financial resource strait but could not meet its expectations.

The Democrat Party government gave priority to especially agricultural and infrastructural

investments but expected developments could not be achieved. Foreign currency reserves decreased in the course of time, the country became to a money scarcity situation. Trade deficits were created as a result of imports in very high levels when compared to exports. The economy faced with a serious balance of payment depression when imports were lessened. At the end of this depression period the government preferred the borrowing way from the IMF and the price of national currency is devaluated.

The inflation which occurred in the years of 1950's badly affected the public first of all; confidence in personal relationships is diminished. As an economic result of inflation investments became less, Turkish Liras lost its value against foreign currencies. Decrease in the investments resulted as a decrease in the employment figures [12].

The characteristic that made this period a turning point is leaving the firm and protectionist economy policies aside and beginning to carry out an extremely liberal economy policy in which liberal import regime is carried out, foreign deficits became chronicle and an economy which keeps its balance with the help of foreign debt and aids. The development approach adopted during that period was giving priority to agricultural and infrastructural investments and the construction industry. An economy which is dependent to external effects is a gift of this period. Democrat Party was come to power in a very affirmative atmosphere. The climate was constructive for agricultural production, human resources progressed compared to previous periods, because of the rise in the agricultural products after the Korean War Turkey's export income became larger. High gold reserves, Marshall aids depending on Truman doctrine, resources created by seigneurage...

But in 1955 the trouble reached its peak point. There were a lot of fraud rumors. And following this protectionist laws, black markets, economic pressure, closedown of labor unions, debt consolidation, devaluation of TL and finally military coup came.

In 1950's SEE's and agricultural subsidy intermediaries were financed by issuing banknotes. During the postwar years of 1954-1961 periods there was an end for expanding economic conjuncture and liberal economic thought was left, economy was in stagnation and fluctuating. Liberal Democrat Party implemented an import substitute policy on that period

which was aimed to controlled foreign trade and compensating the shrink of the import of consumer goods. Democrat Party on the other side which came to power with privatization motto had to expand the state investments and expenditures. But private industry production was also expanded considerably during that period.

To sum up, the 1954-1961 periods the foreign balance can not be obtained with the liberal foreign trade policies and so controls came to foreign trade and a non-planned economic structure was established. As a conclusion with the Democrat Party governance revolutionary investments in the field of agriculture and infrastructure were made following a populist approach, meanwhile with the chain of open budget, issuing banknotes, balance of payment depressions and dependency to foreign debts the macroeconomic imbalances occurred and the chronicle disease of the Turkish economy 'inflation' was born.

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