

THE AMERICAN UNIVERSITY OF PARIS
6, rue du Colonel Combes
75007 Paris, France

Fax: (33. 1) 47.53.81.33.
aferrer@aup.edu
www.aup.edu

Working Paper No. 41

**Economic Change in Twentieth Century Turkey:
Is the Glass More than Half Full?**

Şevket PAMUK
Boğaziçi University, Istanbul

Presented by Şevket PAMUK at the American University of Paris
Monday the 22nd of January 2007

The Working Paper Series at The American University of Paris is published and sponsored by the
Trustee Fund for the Advancement of Scholarship (TFAS)

The AUP Visiting Scholar Working Paper Series –
scholarly workshops in various fields of the social sciences – provides a meeting ground whereby the AUP Community, local scholars, intellectuals, and business and government organizations, can convene with visiting international scholars. The intent is to stimulate debate over critical, intellectually-demanding issues.

Sevket PAMUK

Bogaziçi University

The Ataturk Institute for Modern Turkish History and Department of Economics

34342 Bebek-Istanbul

Turkey

Tel. Office:+90-212-359 65 80 / 359 76 06

Fax: +90-212-265 80 03

pamuk@boun.edu.tr

Abstract

The paper begins with an overview of Turkey's economic growth record since the nineteenth century in both absolute and comparative terms. Turkey's GDP per capita increased about 10 times since 1820 and about eight times since 1880. In relative terms, the gap in per capita GDP between Turkey and the developed economies widened considerably during the nineteenth century. This gap has stayed roughly unchanged since World War I. In other words, after the big divergence until World War I, Turkey failed to converge during the last century. On the other hand, per capita GDP in Turkey increased faster than the developing country averages from the nineteenth century until the 1970s. Due to the strong performances of China and India, however, it has been lagging behind the developing country averages in recent decades. In trying to explain this growth performance, I examine critically long term structural change, industrialization, economic policy and institutional change. I identify low levels of investment in education, macroeconomic instability and the low quality of institutions as the key reasons for Turkey's failure to close the gap with the developed countries since 1913 or 1950.

Introduction

One metaphor for assessing Turkey's economic performance in the twentieth century may be to ask whether the glass is half full or half empty. On the one hand, Turkey has experienced far-reaching economic changes since the early 1920s. The primarily rural and agricultural economy of the early twentieth century has transformed into a mostly urban economy. Average or per capita incomes have increased more than five fold during this period. Other indicators of standards of living have also improved significantly. Life expectancy at birth has almost doubled from under 35 years in the interwar era to 69 years. Adult literacy rates have increased from about 10 percent to about 90 percent. (Table 1)

On the other hand, it would be misleading to judge economic performance only in absolute terms. The twentieth century, especially its second half, was a period of rapid increases in the standards of living in most parts of the developing world, of which Turkey is still considered a part. Increases in per capita incomes in Turkey since World War I have been close to, but slightly above, world averages and averages for the developing countries. The income per capita gap between Turkey and the high income countries of Western Europe and North America was about the same in 2005 as it was on the eve of World War I. Certainly, Turkey has not been one of the miracle-producing economies of the twentieth century. Moreover, its record in human development has been weaker than its record in economic growth, close to but perhaps below averages for the developing world. In addition, these increases or improvements have not all been achieved at a steady pace. In fact, Turkey's economy has been plagued by recurring political and macroeconomic instability that has led to a number of crises, especially in the second half of the twentieth century. The most severe of these, a financial crisis, occurred in 2001. That the economy managed to rebound strongly within a few years should perhaps remind us of the above metaphor.

Also on the positive side, the last decade has witnessed important changes in Turkey's relations with the European Union. Although the first agreement for cooperation between Turkey and what was then the Common Market dates back to 1963, both sides remained doubtful about Turkey's integration. Turkey's first application for membership in 1987 was turned down but it joined the European customs union in 1996. After a reasonably successful implementation of the customs union for one decade, formal negotiations for membership in the European Union began in 2006.

I begin below with several key indicators that offer a summary evaluation of Turkey's economic development record since 1923 or 1913 in a comparative framework. The rest of the chapter attempts to understand that record. In recent years, a growing literature has emphasized the

contribution of the social and political environment, and more specifically of institutions defined as written and unwritten rules and norms, to long term economic change. In the second section, I will sketch a framework for understanding the linkages between the evolution of institutions and economic change in twentieth century Turkey. I will then examine, in the third section, world economic conditions, government economic policies and the basic macroeconomic outcomes for Turkey in three sub-periods, in order to gain additional insights into its absolute and relative growth record. With its very large share in employment and total output until recently, agriculture is of central importance also for understanding long term economic development in Turkey. Similarly, income distribution, or more generally the distribution of gains, must be part of any long term evaluation. In the fourth section, I focus on these two themes, agriculture and income distribution and regional disparities, before offering some concluding remarks in the fifth section.

I. Economic Growth and Development Record

In the 1920s, less than 25 percent of Turkey's population lived in urban centers with more than 5000 inhabitants. The rural-urban shares remained little changed until after World War II but Turkey has been experiencing rapid urbanization since then. The proportion of the population living in urban centers, as defined above, increased to 44 percent by 1980 and to 68 percent by 2005. Rapid urbanization has been accompanied by large shifts within the labor force. Agriculture's share in total employment declined from about 80 percent in 1913 and in 1950 to 34 percent in 2005, while industry's share rose from about 9 to 23 percent, and that of services increased from 11 to 43 percent. Similarly, agriculture's share in GDP declined from about 55 percent in 1913 and 54 percent in 1950 and to 11 percent in 2005. Share of industry has increased from about 13 percent in 1913 to 26 percent in 2005 while the share of services has increased from 34 to 64 percent during the same period. (Table 1 and Graph 1)

The beginning date or base year for long-term comparisons of economic growth (1913 vs. 1923) requires an explanation. A decade of wars beginning in 1912 had resulted in a dramatic 20 percent decline in population and as much as 40 percent decline in per capita incomes by 1922. As a result, the GDP per capita levels for Turkey were sharply lower than long-term trend values in the early 1920's,. For this reason, the year selected for long-term comparisons makes a big difference. While I provide values for both base years in Table 1, for most comparisons I will use 1913, which is also used in most international comparisons.

Per capita incomes in Turkey and the rest of the Ottoman Empire rose during the nineteenth century. Nonetheless, the gap between the high income countries of Western Europe and the United States and the developing world, including the Ottoman Empire, widened considerably during the century before World War I, due to the rapid rates of industrialization in the former group. GDP per capita in the area within present-day borders of Turkey was approximately 1200

dollars in 1913. (Table 1) This was 29 percent of the level of GDP per capita in the high income countries of Western Europe and the United States, calculated on a population-weighted basis, and 168 percent of the GDP per capita income in the developing countries of Asia, Africa and Latin America, also calculated on a population-weighted basis and for the same year.

Two world wars and a great depression later, per capita income in Turkey in 1950 was more than 30 percent higher, at 1620 constant or inflation-adjusted dollars. This was equal to 24 percent of the per capita income of the high income countries and 188 percent of the per capita income in the developing countries. By 2005, GDP per capita in Turkey had reached 7500 dollars, an increase of more than five fold since 1913. This figure corresponded to about 30 percent of the level of GDP per capita in the high income countries of Western Europe and the United States, and approximately 225 percent of the GDP per capita income of the developing countries for the same year. In other words, average incomes in Turkey have increased at about the same rate as those in high income countries since 1913. Turkey has not been able to close any of this large gap. At the same time, increases in average incomes in Turkey since 1913 have been slightly faster than those in the developing world. If 1923 were chosen as the base year, Turkey's long term record would look considerably better. (Table 1)

In Graph 2, I provide per capita GDP series for Turkey and a number of other regions and continents as percentages of the average for Western Europe and the United States for the period since 1913. This graph allows further insights into Turkey's comparative economic record in the twentieth century. It shows that while its growth record was better than the averages for Latin America, Middle East and Africa as a whole, Turkey has lagged well behind Southern Europe and East Asia since 1950. (To the Editor: please allow full page for Graph 2)

However, GDP per capita is not an adequate measure of economic development or more generally of standards of living. For this reason, the Human Development Index (HDI), a broader measure first introduced by the United Nations in 1990, has become quite popular. HDI has three components, longevity as measured by life expectancy at birth, knowledge as measured by a weighted average of adult literacy and years of schooling and income as measured by GDP per capita. Estimates for HDI for Turkey and other countries are available for the benchmark years of 1950 and 1975, as well as for the period since 1990. Recently, I made a separate estimate for Turkey in 1913, making use of the data cited above. These estimates allow us to obtain an overview of the standards of living in twentieth century Turkey and insert it into a comparative framework. (Table 2)

It is not easy to compare the evolution of HDI of developing countries with those of developed countries today or in the past. For this purpose, I present in the last column of Table 2 a measure for the extent to which countries have reduced the distance between their level of HDI of 1950 and the maximum attainable score of 1. While Turkey and many other developing countries with

low initial levels have experienced large increases in HDI since 1950, the developed countries have generally shown larger increases when measured as percent of maximum possible increase. In terms of this latter measure, Turkey has done better than African and Eastern European countries, about the same as Latin American countries, and has lagged behind East Asian countries since 1950.

Changes in life expectancy at birth, or $e(0)$, provide a dramatic example of changes in twentieth century Turkey. The earliest period for which we have estimates of $e(0)$ is for the 1930s when the figure was 30 years. Life expectancy at birth had increased to 47 years by 1950 and to 62 years by 1980. In 2004, the latest year for which we have the estimates, $e(0)$ stood at 70 years; 68 years for men and 73 years for women. (Table 1) While official estimates are not available for adult literacy in the early years of the republic, it can be safely assumed that the rate did not exceed 10 percent in the 1920s. In 1935, the literacy rate for individuals over age 15 was 19 percent: 31 percent for men and only 8 percent for women. By 1950, the adult literacy rate had increased to 28 percent; 47 percent for men and 13 percent for women. In 2005, it stood at 89 percent; 95 percent for men and 82 percent for women. (Table 1)

Since 1913 and especially since 1950, levels and improvements in life expectancy in Turkey have been comparable to those in other developing countries with similar levels of income. However, since 1913 and 1950 education levels in Turkey as measured by literacy, years of schooling and school enrollment have been lagging significantly behind education levels in developing countries with similar levels of GDP. At the same time, the incidence of poverty in Turkey has been lower in comparison to developing countries with similar levels of income. These contrasts can be clearly observed in a comparison of Turkey with countries in Latin America since 1913 and 1950. Levels of schooling in Turkey have been below the averages for the larger Latin American countries throughout the twentieth century. The lagging performance in education is not a matter for the historical record alone, however. This deficit will make itself increasingly felt in the decades ahead. For further increases in GDP per capita, Turkey will need a better educated labor force and significant increases in the technology and knowledge component of its economy.

Along with other Muslim majority countries, Turkey also lags behind developing countries with comparable levels of per capita income in indices aiming to measure gender equality and socio-economic development of women.ⁱ One other reason why many of Turkey's human development measures have been lagging behind is the large regional differences in these indicators between the mostly Kurdish southeast and the rest of the country, as discussed in Section IV below.

II- Institutional Change and Economic Growth

For decades it was believed that economic growth results in part from the accumulation of factors of production and improvements in their quality through investment in machines and skill

formation, and in part from increases in productivity derived from advances in technology and organizational efficiency. In recent years, however, a useful distinction is being made between the proximate and the ultimate sources of economic growth. The former relates to the contributions made by the increases in factor inputs and productivity as cited above. The latter refers to aspects of the social and economic environment that influence the rate at which inputs and productivity grow. A growing literature emphasizes the importance of institutions or written and unwritten rules of a society and policies such as property rights and their enforcement, norms of behavior, political and macroeconomic stability, which affect the incentives to invest and innovate. In this new perspective, the basic function of institutions is to provide certainty in economic activity. More complex economic structures will not emerge unless institutions can reduce the uncertainties associated with such structures. Recent research has also revealed very large differences in total productivity levels between countries. It appears more than half of the differences in levels of per capita production are due to the productivity obtained from the same amount of resources rather than from the accumulation of more machines or skills per person.ⁱⁱ In this context, the quality of institutions is increasingly seen as the key to the explanation of economic growth and long-term differences in per capita GDP. Economic institutions also determine the distribution of income and wealth. In other words, they determine not only the size of the aggregate pie, but also how it is divided amongst different groups in society.

The process of how economic institutions are determined and the reasons why they vary across countries are still not sufficiently well understood. Nonetheless, it is clear that because different social groups including state elites benefit from different economic institutions, there is generally a conflict of interest over the choice of economic institutions, which is ultimately resolved in favor of groups with greater political power. The distribution of political power in society is in turn determined by political institutions and the distribution of economic power. For long-term growth, economic institutions should not offer incentives to narrow groups, but instead open up opportunities to broader sections of society. For this reason, political economy and political institutions are considered as key determinants of economic institutions and the direction of institutional change.ⁱⁱⁱ

The evolution of economic institutions in Turkey and their consequences for economic growth and distribution of income have not been closely studied. In the next section, I will examine structural change, industrialization and the basic macroeconomic outcomes in three sub-periods: the interwar years or the single party era until the end of World War II, the import-substituting industrialization era after World War II and the globalization era since 1980. I will thus seek to gain insights not only into Turkey's record of economic growth and distribution, but also into the evolution of the economic institutions that played a key role in these outcomes. Briefly, there were significant institutional changes in Turkey during the interwar period. Ultimately, however, political

and economic power remained with the state elites. Despite the rhetoric to the contrary, the regime remained decidedly urban in a country where the overwhelming majority lived in rural areas and engaged in agriculture. As a result, these institutional changes did not reach large segments of the population. Rates of increase of per capita GDP remained low in Turkey as in most developing countries during this period. Pace of economic growth accelerated in both the developed and developing countries including Turkey after World War II. With the transition to a more open political regime and urbanization, urban industrial groups began to take power away from the state elites. The economic institutions began to reflect those changes. This transition, however, has not been smooth or easy. For most of the last half century, political and macroeconomic instability including three military coups and a series of fragile coalitions and the shortcomings of the institutional environment seriously undermined the economy's growth potential. The glass has remained only half full.

III.1 World Wars, the Great Depression and Etatism, 1913-1946

The Ottoman economy, including those areas that later comprised modern Turkey, remained mostly agricultural until World War I. Nonetheless, per capita incomes were rising in most regions of the empire during the decades before the war.^{iv} But the destruction and death that accompanied the Balkan Wars of 1912-13, World War I and the War of Independence, 1920-22, had severe and long-lasting consequences. Total casualties, military and civilian, of Muslims during this decade are estimated at close to 2 million. In addition, most of the Armenian populace of about one and a half million in Anatolia were deported, killed, or died of disease, after 1915. Finally, under the Lausanne Convention, approximately 1.2 million Orthodox Greeks were forced to leave Anatolia, and in return, close to half a million Muslims arrived from Greece and the Balkans after 1922.

As a result of these massive changes, the population of what became the Republic of Turkey declined from about 17 million in 1914 to 13 million at the end of 1924.^v The population of the new nation-state had also become more homogeneous, with Muslim Turks and the Kurds who lived mostly in the southeast making up close to 98 percent of the total. The dramatic decline in Greek and Armenian population meant that many of the commercialized, export-oriented farmers of Western Anatolia and the eastern Black Sea coast, as well as the artisans, leading merchants and moneylenders who linked the rural areas to the port cities and the European trading houses had died or departed. Agriculture, industry and mining were all affected adversely by the loss of human lives and by the deterioration and destruction of equipment, draft animals and plants during the war years. GDP per capita in 1923 was approximately 40 percent below its 1914 levels.^{vi} (also Table 1)

The former military officers, bureaucrats and intellectuals who assumed the positions of leadership in the new republic viewed the building of a new nation-state and modernization through Westernization as two closely related goals. They strived, from the onset, to create a national economy within the new borders. The new leadership was keenly aware that financial and economic dependence on European powers had created serious political problems for the Ottoman state. At the Lausanne Peace Conference (1922-23), which defined, amongst other things, the international economic framework for the new state, they succeeded in abolishing the regime of capitulations that had provided special privileges to foreign citizens. The parties also agreed that the new republic would be free to pursue its own commercial policies after 1929. The new government saw the construction of new railroads and the nationalization of the existing companies as important steps towards the political and economic unification of the new state inside new borders. Despite its rhetoric to the contrary, the regime's priorities lay with the urban areas. It considered industrialization and the creation of a Turkish bourgeoisie to be the key ingredients of national economic development.^{vii}

Nonetheless, the new regime abolished the much-dreaded agricultural tithe and the animal tax in 1924. This move represented a major break from Ottoman patterns of taxation and a significant decrease in the tax burden of the rural population. While this decision has been interpreted as a concession to the large landowners, the new leadership was concerned more about alleviating the poverty of the small and medium sized producers, which made up the overwhelming majority of the rural population. In the longer term, the abolition of the tithe and tax-farming helped consolidate small peasant ownership. The recovery of agriculture provided an important lift to the urban economy as well. By the end of the 1920s, GDP per capita levels had attained the levels prevailing before World War I.^{viii}

The Great Depression

The principal mechanism for the transmission of the Great Depression to the Turkish economy was the sharp decline in prices of agricultural commodities. Decreases in the prices of leading crops, such as wheat and other cereals, tobacco, raisins, hazelnuts and cotton, averaged more than 50 percent from 1928-29 to 1932-33, much more than the decreases in prices of non-agricultural goods and services. These adverse price movements created a sharp sense of agricultural collapse in the more commercialized regions of the country, in western Anatolia, along the eastern Black Sea coast and in the cotton-growing Adana region in the south.^{ix}

Earlier in 1929, even before the onset of the crisis, the government had begun to move towards protectionism and greater control over foreign trade and foreign exchange. By the second half of the 1930s, more than 80 percent of the country's foreign trade was conducted under clearing and reciprocal quota systems. * As the unfavorable world market conditions continued, the government announced in 1930 a new strategy of etatism, which promoted the state as a

leading producer and investor in the urban sector. A first five-year industrial plan was adopted in 1934 with the assistance of Soviet advisers. By the end of the decade, state economic enterprises had emerged as important and even leading producers in a number of key sectors, such as textiles, sugar, iron and steel, glass works, cement, utilities and mining.^{xi} Etatism undoubtedly had a long-lasting impact in Turkey, and later in other countries around the Middle East. However, the initial efforts in the 1930s made only modest contributions to economic growth and structural change. For one thing, state enterprises in manufacturing and many other areas did not begin operations until after 1933. Close to half of all fixed investments by the public sector during this decade went to railroad construction and other forms of transportation. In 1938, state enterprises accounted for only 1 percent of total employment in the country. Approximately 75 percent of employment in manufacturing continued to be provided by small-scale private enterprises.^{xii}

Etatism did not lead to large shifts in fiscal and monetary policies, either. Government budgets remained balanced, and the regime made no attempt to take advantage of deficit finance. In fact, “balanced budget, strong money” was the government’s motto for its macroeconomic policy. The exchange rate of the lira actually rose against all leading currencies during the 1930s. The most important reason behind this policy choice was the bitter legacy of the Ottoman experience with budget deficits, large external debt and inflationary paper currency during World War I. İsmet İnönü, the prime minister for most of the interwar period, was a keen observer of the late Ottoman period and was the person most responsible for this cautious, even conservative, policy stand. In other words, government interventionism in the 1930s was not designed, in the Keynesian sense, to increase aggregate demand through the use of devaluations and expansionary fiscal and monetary policies. Instead, the emphasis was on creating a more closed, autarkic economy, and increasing central control through the expansion of the public sector.^{xiii}

Economic Growth and its Causes

Available estimates suggest GDP and GDP per capita grew at average annual rates of 5.4 and 3.1 percent respectively during the 1930s, despite the absence of expansionary fiscal and monetary policy. (See Table 1 and Graph 2) One important source of the output increases after 1929 was the protectionist measures adopted by the government ranging from tariffs and quotas to foreign exchange controls, which sharply reduced the import volume from 15.4 percent of GDP in 1928-29 to 6.8 percent by 1938-39. (Graph 3) Import repression created attractive conditions for the emerging domestic manufacturers, mostly the small and medium-sized private manufacturers.

There is another explanation for the overall performance of both the urban and the national economy during the 1930s, which has often been ignored amidst the heated debates over

etatism. Thanks to the strong demographic recovery, agriculture—the largest sector of the economy, employing more than three fourths of the labor force and accounting for close to half of the GDP—did quite well during the 1930s.^{xiv}

Given its balanced-budget policy stand, government actions in response to sharply lower agricultural prices after 1929 were limited to purchases of small amounts of wheat. It is remarkable that despite the adverse price trends, agricultural output increased by 50 to 70 percent during the 1930s. The most important explanation of this outcome is the demographic recovery in the countryside. In the interwar period, Anatolian agriculture continued to be characterized by peasant households who cultivated their own land with a pair of draft animals and the most basic of implements. With the population beginning to increase at annual rates around 2 percent after a decade of wars, expansion of the area under cultivation soon followed. It is also likely that the peasant households responded to the lower cereal prices after 1929 by working harder to cultivate more land and produce more cereals in order to reach certain target levels of income, very much like the peasant behavior predicted by the Russian economist Chayanov. In other words, behind the high rates of industrialization and growth in the urban areas were the millions of family farms in the countryside, which kept food and raw materials prices lower until World War II.^{xv}

Difficulties during the War

Although Turkey did not participate in World War II, full-scale mobilization was maintained during the entire period. The sharp decline in imports and the diversion of large resources for the maintenance of an army of more than one million placed enormous strains on the economy. Official statistics suggest that GDP declined by as much as 35 percent and the wheat output by more than 50 percent until the end of the war. In response, the prices of foodstuffs rose sharply and the provisioning of urban areas emerged as a major problem for the government. Under these circumstances, etatism was quickly pushed aside. Large increases in defense spending were financed by monetary expansion. High inflation, wartime scarcities, shortages and profiteering accentuated by economic policy mishaps soon became the order of the day. Measures such as the 1942 Varlık Vergisi, or Wealth Levy, which was applied disproportionately to non-Muslims, only made things worse.^{xvi}

As declining production and sharply lower standards of living combined with increasing inequalities in the distribution of income, large segments of the urban and rural population turned against the Republican People's Party, which had been in power since the 1920s. In terms of economics, the war years, rather than the Great Depression and etatism era, thus appear to be the critical period in the political demise of the single party regime.

Despite two world wars and the Great Depression, per capita levels of production and income in Turkey were 30 to 40 percent higher in 1950 than the levels on the eve of World War I. (see

Table 1 and Graph 2) ^{xvii} Around mid-century, the economy was much more inward-oriented than it had been in 1913. Due to the impact of two world wars and a depression, rural-urban differences and regional disparities were considerably higher than they had been in 1913.

III.2. The Post-World War II Era, 1946-1980

Domestic and international forces combined to bring about major political and economic changes in Turkey after World War II. Domestically, many social groups had become dissatisfied with the single party regime. The agricultural producers, especially poorer segments of the peasantry, had been hit hard by wartime taxation and government demands for the provisioning of the urban areas. In the urban areas, the bourgeoisie was no longer prepared to accept the position of a privileged but dependent class, even though many had benefited from the wartime conditions and policies. They now preferred greater emphasis on private enterprise and less government interventionism.^{xviii}

International pressures also played an important role in the shaping of new policies. The emergence of the United States as the dominant world power after the war shifted the balance towards a more open political system and a more liberal and open economic model. Soviet territorial demands pushed the Turkish government towards close cooperation with the United States and Western alliance. The U.S. extended the Marshall Plan to Turkey for military and economic purposes beginning in 1948.

Agriculture-Led Growth, 1947-1962

The shift to a multi-party electoral regime brought Democrat Party to power in 1950. Undoubtedly the most important economic change brought about by the Democrats was the strong emphasis placed on agricultural development. Agricultural output more than doubled from 1947, when the pre-war levels of output were already attained, through 1953.^{xix} A large part of these increases were due to the expansion in cultivated area, which was supported by two complementary government policies, one for the small peasants and the other for larger farmers. First, the government began to distribute state-owned lands and open communal pastures to peasants with little or no land. Secondly, the Democrat government used Marshall Plan aid to finance the importation of agricultural machinery, especially tractors, whose numbers jumped from less than 10,000 in 1946 to 42,000 at the end of the 1950s. Agricultural producers also benefited from favorable weather conditions and strong world market demand for wheat, chrome and other export commodities, thanks to American stockpiling programs during the Korean War.^{xx}

The agriculture-led boom, meant good times and rising incomes for all sectors of the economy. It seemed in 1953 that the promises of the liberal model would be quickly fulfilled. These golden years did not last very long, however. With the end of the Korean War, international demand slackened and prices of export commodities began to decline. With the disappearance of favorable weather conditions, agricultural yields declined as well. Rather than accept lower

incomes for the agricultural producers, who made up more than two thirds of the electorate, the government decided to initiate a large price support program for wheat, financed by increases in the money supply. The ensuing wave of inflation and the foreign exchange crisis, which was accompanied by shortages of consumer goods, created major economic and political problems for the Democrat Party, especially in the urban areas.^{xxi} One casualty of the crisis was the political as well as economic liberalism of the Democrat Party. Just as it responded to the rise of political opposition with the restriction of democratic freedoms, in most economic issues the government was forced to change its earlier stand and adopt a more interventionist approach. It finally agreed in 1958 to undertake a major devaluation and began implementing a IMF and OECD-backed stabilization program.

To this day, agricultural producers and their descendants, many of whom are now urbanized, continue to view the Democrat Party government and especially the Prime Minister Adnan Menderes, a large landowner, as the first government to understand and respond to the aspirations of the rural population. The Democrat Party also offered the first example of populist economic policies in modern Turkey. Not only did it target a large constituency and attempt to redistribute income towards them, but it also tried to sustain economic growth with short-term expansionist policies, with predictable longer-term consequences. The 1950's also witnessed the dramatic acceleration of rural-to-urban migration in Turkey. Both push and pull factors were behind this movement, as conditions in rural areas differed widely across the country. The development of the road network also contributed to the new mobility.^{xxii}

Import Substituting Industrialization, 1963-1977

One criticism frequently directed at the Democrats was the absence of any coordination and long term perspective in the management of the economy. After the coup of 1960, the military regime moved quickly to establish the State Planning Organization (SPO). The idea of development planning was now supported by a broad coalition: the Republican People's Party with its etatist heritage, the bureaucracy, large industrialists and even the international agencies, most notably the OECD.^{xxiii}

The economic policies of the 1960s and 1970s aimed, above all, at the protection of the domestic market and industrialization through import substitution (ISI). Governments made heavy use of a restrictive trade regime, investments by state economic enterprises and subsidized credit as key tools for achieving ISI objectives. The SPO played an important role in private sector decisions as well, since its approval was required for all private sector investment projects which sought to benefit from subsidized credit, tax exemptions, import privileges and access to scarce foreign exchange. The agricultural sector was mostly left outside the planning process.^{xxiv}

With the resumption of ISI, state economic enterprises once again began to play an important role in industrialization. Their role, however, was quite different in comparison to the earlier period. During the 1930's when the private sector was weak, industrialization was led by the state

enterprises and the state was able to control many sectors of the economy. In the post-war period, in contrast, the big family holding companies, large conglomerates which included numerous manufacturing and distribution companies as well as banks and other services firms, emerged as the leaders.

For Turkey, the years 1963 to 1977 represented what Albert Hirschman has called the easy stage of ISI.^{xxv} The opportunities provided by a large and protected domestic market were exploited, but ISI did not extend to the technologically more difficult stage of capital goods industries. Export orientation of the manufacturing industry also remained weak. Turkey obtained the foreign exchange necessary for the expansion of production from traditional agricultural exports and remittances from workers in Europe. The ISI policies were successful bringing about economic growth, especially in their early stages. GNP per capita increased at the average annual rate of 4.3 percent during 1963-1977 and at 3.5 percent per annum including the crisis years of 1978-79. Rate of growth of manufacturing industry was considerably higher, averaging more than 10 percent per annum for 1963-1977.^{xxvi} (Also see Table 1 and Graph 2)

The role played by the domestic market during this period deserves further attention. Despite the apparent inequalities in income, large segments of the population, including civil servants, workers, and to a lesser extent, agricultural producers, were incorporated into the domestic market for consumer durables. Perhaps most importantly, real wages almost doubled during this period. Behind this exceptional rise lay both market forces and political and institutional changes. While industrial growth increased the demand for labor, the emigration of more than one million workers to Europe by 1975 kept conditions relatively tight in the urban labor markets. At the same time, the institutional rights they obtained under the 1961 Constitution supported the labor unions at the bargaining table. Large industrial firms, which were not under pressure to compete in the export markets, accepted wage increases more easily since higher wages served to broaden the demand for their own products. By the middle of the 1970's, however, industrialists had begun to complain about the high level of wages and an emerging labor aristocracy.^{xxvii}

While industry and government policy remained focused on a large and attractive domestic market, they all but ignored exports of manufactures, and this proved to be the Achilles' heel of Turkey's ISI. The export sector's share in GDP averaged less than 4 percent during the 1970s, and about two thirds of these revenues came from the traditional export crops. (Graph 3) A shift towards exports would have increased the efficiency and competitiveness of the existing industrial structure, acquired the foreign exchange necessary for an expanding economy and even supported the import substitution process itself in establishing the backward linkages towards the technologically more complicated intermediate and capital goods industries.

There existed an opportunity for export promotion in the early 1970's, especially in the aftermath of the relatively successful devaluation of 1970. By that time, Turkish industry had acquired sufficient experience to be able to compete or learn to compete in the international

markets. For that major shift to occur, however, a new orientation in government policy and the institutional environment was necessary. The overvaluation of the domestic currency and many other biases against exports needed to be eliminated. Instead, the successes obtained within a protected environment created vested interests for the continuation of the same model. Most of the industrialists as well as organized labour, which feared that export orientation would put downward pressure on wages, favored the domestic market oriented model. Moreover, political conditions became increasingly unstable during the 1970's. The country was governed by a series of fragile coalitions with short time horizons. As a result, the government made no attempt to shift towards export oriented policies or even adjust the macroeconomic balances after the first oil shock of 1973. ^{xxviii}

The Crisis of ISI

The short-lived coalitions chose to continue with expansionist policies at a time when many industrialized countries were taking painful steps to adjust their economies. Turkey's existing policies could be sustained only by a very costly external borrowing schemes. In less than two years it became clear that the government was in no position to honor the outstanding external debt stock, which had spiralled from 9 percent to 24 percent of GDP.^{xxix} By the end of the decade Turkey was in the midst of its most severe balance of payments crisis of the postwar period. As rising budget deficits were met with monetary expansion, inflation jumped to 90 percent in 1979. The second round of oil price increases only compounded the difficulties. With oil increasingly scarce, frequent power cuts hurt industrial output as well as daily life. Shortages of even the most basic items became widespread, arising from both the declining capacity to import and the price controls. The economic crisis, coupled with the continuing political turmoil, brought the country to the brink of civil war. ^{xxx}

Perhaps the basic lesson to be drawn from the Turkish experience is that an ISI regime becomes difficult to dislodge owing to the power of vested interest groups who continue to benefit from the existing system of protection and subsidies. To shift towards export promotion in a country with a large domestic market required a strong government with a long term horizon and considerable autonomy. These were exactly the features lacking in the Turkish political scene during the 1970s. As a result, economic imbalances and costs of adjustment increased substantially. It then took a crisis of major proportions to move the economy towards greater external orientation.

III.3. The Globalization Era since 1980

Against the background of a severe foreign exchange crisis and strained relations with the IMF and international banks, the newly installed minority government of Süleyman Demirel announced a comprehensive and unexpectedly radical policy package of stabilization and liberalization in January 1980. Turgut Özal, a former chief of the State Planning Organization, was

to oversee the implementation of the new package. The Demirel government was unable to gain the political support necessary for the successful implementation of the package, but the military regime that came to power later that year endorsed the new program and made a point of keeping Özal in the government, as Deputy Prime Minister responsible for Economic Affairs.

The aims of the new policies were to improve the balance of payments and reduce the rate of inflation in the short term, and to create a market-based, export-oriented economy in the longer term. The policy package included a major devaluation followed by continued depreciation of the currency in line with the rate of inflation, greater liberalization of trade and payments regimes, elimination of price controls, freeing of interest rates, elimination of many government subsidies, substantial price increases for the products of the state economic enterprises, subsidies and other support measures for exports and promotion of foreign capital. Reducing real wages and the incomes of agricultural producers were important parts of the new policies.^{xxxii}

With the shift to a restricted parliamentary regime in 1983, Özal was elected prime minister as the leader of the Motherland Party. He soon launched a new wave of liberalization of trade and payments regimes. These measures began to open up the ISI structures to competition. However, frequent revisions in the liberalization lists, the arbitrary manner in which they were made, and the favors provided to groups close to the government created a good deal of uncertainty regarding the stability and durability of these changes. The response of the private sector to import liberalization was mixed. While export oriented groups and sectors supported it, the ISI industries, especially the large scale conglomerates whose products included consumer durables and automotives, continued to lobby for protection.^{xxxiii}

From the very beginning, the program of January 1980 benefited from the close cooperation and goodwill of the international agencies such as the IMF and the World Bank, as well as the international banks. For most of the decade these agencies portrayed Turkey as a shining example of the validity of the orthodox stabilization and structural adjustment programs. In economic terms, this support translated into better terms in the rescheduling of the external debt and substantial amounts of new resource inflows. As a result, the foreign exchange constraint disappeared very quickly and the public sector had less need for inflationary finance at home. These were undoubtedly indispensable ingredients for the success of the program.^{xxxiii}

One area of success for the new policies was in export growth. Turkey's merchandise exports sharply rose from a mere 2.6 percent of GDP in the crisis year of 1979 to 8.6 percent of the GDP in 1990. (Graph 3) Turkey in fact ranked first amongst all countries in rate of export growth during this decade. Equally dramatic was the role of manufactures, which accounted for approximately 80 percent of this increase. Among the exports, textiles, clothing and iron and steel products dominated the market. It is thus clear that the success in export growth was achieved by reorienting the existing capacity of ISI industries towards external markets. In addition to a steady

policy of exchange rate depreciation, the exporters were supported by generous credits at preferential rates, tax rebates and foreign exchange allocation schemes during this drive.

The impact of the new policies on the rest of the economy was mixed, however. Most importantly, the new policies did not generate the high levels of private investment necessary for long term growth. In the manufacturing industry, high interest rates and political instability were the most important impediments. Even in the area of exports, new investment was conspicuously absent; most of the increase was achieved with the existing industrial capacity. The response of foreign capital to the new policies was not very strong either, apparently for reasons similar to those of domestic capital.^{xxxiv} As a result, the growth performance of the economy was modest. GNP increased at the annual rate of 4.6 percent and GNP per capita increased at 2.3 percent during the 1980's. (Table 1 and Graph 2) Moreover, these were obtained at the cost of accumulating a large external debt, which climbed more than fivefold from less than 10 billion dollars in 1980 to more than 50 billion dollars in 1990.

Another important area where the record of the new policies was bitterly contested was income distribution. From the very beginning, the January 1980 package set out to repress labor and agricultural incomes, and these policies were maintained until 1987 thanks to the military regime and the limited nature of the transition to multi-party politics. Real wages declined by as much as 34 percent and the intersectoral terms of trade turned against agriculture by more than 40 percent until 1987, although some of this deterioration had occurred during the crisis years of 1978 and 1979.

The agricultural sector, which continued to provide employment to about half of the labor force, was all but ignored by the military regime and the Motherland Party. The most important change for the sector was the virtual elimination of subsidies and price support programs after 1980, which combined with trends in the international markets to create a sharp deterioration in the sectoral terms of trade. As a result, the agricultural sector showed the lowest rates of output increase during the post-war era, averaging only 1 percent per year since 1980. Agricultural output has thus failed to keep pace with population growth for the first time in the twentieth century.

Turgut Özal was a critical figure in Turkey's transition to a neo-liberal development model in the 1980s. There can be no question that his bold initiatives helped accelerate the opening and market orientation of the economy. His legacy is not wholly positive, however. Özal preferred to govern by personal decisions and decrees and tended to underestimate the importance of rule of law and a strong legal infrastructure for the effective operation of a market economy. His rather relaxed attitude towards the rule of law had devastating long-term consequences. The significant rise in corruption in Turkey during the 1990s should be considered a direct legacy of the Özal era.^{xxxv}

With the transition to a more open, competitive electoral regime, the opposition began to criticize the deterioration of income distribution and the arbitrary manner in which Özal often implemented his policies. In response, the government increasingly resorted to old-style populism and lost its room for maneuver. Public sector wages, salaries and agricultural incomes were sharply increased. Real wages almost doubled from their decade-low point in 1987 until 1990. These, in turn, sharply increased the deficits and borrowing requirements of the public sector. ^{xxxvi}

A Decade to Forget

The globalization process offered opportunities as well as vulnerabilities to developing countries. In the case of Turkey, political instability and large public sector deficits that lasted until 2002 made it increasingly costly to participate in the new environment. In 1989, as the macroeconomic balances began deteriorate, Özal decided to fully liberalize the capital account and eliminate the obstacles in the way of international capital flows. He made this shift at least in part to attract short-term capital inflows, or hot money, to help finance the deficits. In the longer term, however, the decision to liberalize the capital account before achieving macroeconomic stability and creating a strong regulatory infrastructure for the financial sector was very costly. As the economy became increasingly vulnerable to external shocks and sudden outflows of capital, the 1990s turned into the most difficult period in the post-World War II era.

Public sector deficits continued to widen in the 1990s, with programs directed towards various segments of the electorate, cheap credit to small businesses, lower retirement age and more generous retirement benefits and most importantly, high support prices for the agricultural producers. The war against the Kurdish separatist PKK in southeastern Turkey, which lasted from 1984 until 1999, also imposed a large fiscal burden. Domestic and external borrowing was the most important mechanism for financing the growing deficits. High interest rates and a pegged exchange rate regime attracted large amounts of short-term capital inflows. Private banks rushed to borrow from abroad in order to lend to the government. In addition, large public sector banks were directed by the governments to finance part of these outlays. Last but not least, monetary expansion was used as a regular instrument for fiscal revenue.

Along the way, the structural reforms that would have increased the resilience of the economy to internal and external shocks were pushed aside. Virtually no progress was made in the privatization of the state economic enterprises. Attempts to sell large state enterprises were often accompanied by scandals involving leading politicians. The privatization of some of the smaller public sector banks resulted in very large losses for the state sector as these banks were stripped of their assets by the well-connected buyers, and the full guarantees on bank deposits made the public sector responsible for their large losses. Not surprisingly, inflows of foreign direct investment remained limited.

The result was a period of very high inflation, which peaked at more than 100 percent in 1994 and remained above 50 percent per annum through 2001, very high nominal and real interest rates, steady increases in public debt and increasing vulnerability to external shocks which led to crises in 1991, 1994, 1998 and 2000-1, the last of which was the most severe. GDP per capita continued to rise as a long term trend but at a pace lower than the earlier era. (Graph 2) High inflation and high interest rates made income distribution increasingly unequal, especially in the urban sector. One significant achievement of the period obtained at some political and economic cost was the customs union agreement with the European Union that began in 1996.¹

By the end of 1999 it was clear that the macroeconomic balances were not sustainable. Negotiations with the IMF led to a new stabilization program with a pegged exchange rate regime as the key anchor to bring down inflation. This program was deeply flawed in design, however, as it ignored significant problems in the financial sector, especially the large deficits of the public sector banks, which had been used for financing part of the budget deficits. After some initial successes, the program disintegrated into a full blown banking and financial crisis in 2001. In the face of massive capital outflows, the government was forced to suspend the program and accept a dramatic depreciation of the lira. (To the Editor: Please add FN here: Öniş and Aysan, “Neoliberal globalization”).

In early 2001, the Turkish government invited Kemal Derviş to leave the World Bank and take up the job of Economy Minister. With IMF support, his team developed a program based around fiscal discipline and large budget surpluses. The program adopted a floating exchange rate regime and converted the outstanding liabilities of the public sector banks to long-term public debt. It also featured some long-term structural reforms, including measures to reform the vulnerable financial system, and a series of laws that attempted to insulate public sector banks and state economic enterprises from the interference of politicians and strengthen the independence of the central bank.

The economy has staged a remarkable recovery since. After declining by 9.5 percent in 2001, real GDP increased by about 35 percent during the next four years. By the end of 2005, annual inflation had declined to below 8 percent, a level not seen since the 1960's. (Graph 2) Nominal and real interest rates also declined sharply. The credit for this turnaround should begin with Derviş and the initial program. The AKP government that came to power after the elections of 2002 should also be credited for maintaining fiscal discipline. The generally favorable international environment, with low interest rates for developing countries, also helped. By 2005, significant amounts of foreign direct investment had begun to flow into Turkey, and the government was making some progress in the privatization of the state economic enterprises. Thanks to economic growth and the large budget surpluses, the debt burden declined from above

100 percent of GDP in 2001 to less than 70 percent by 2005. This was mostly a jobless recovery, however. Despite the substantial increases in output and incomes, unemployment in the urban areas remained above 13 percent through 2005.

Anatolian tigers

One important outcome of economic liberalization after 1980 has been the increasing export orientation of the economy. Exports rose from less than 3 billion dollars in 1980 to 70 billion dollars, or 20 percent of GDP, by 2005. (Graph 3) Most of this increase occurred in textiles, steel, automotives and other manufactures, whose share in total exports exceeded 90 percent in the 1990s. The rapid expansion of exports of manufactures played a key role in the rise of the Anatolian tigers, regional industrial centers such as Gaziantep, Denizli, Kayseri, Malatya, Konya, Çorum and others. With craft traditions and non-unionized workforces, these industrial centers began to account for a significant share of growing exports in textiles and other labor intensive industries. Their competitive advantage was bolstered by low wages, long working hours and flexible labor regimes. Large numbers of small and medium sized family enterprises played a central role in the rise of these industrial centers. Their rise was achieved with little state support and little or no foreign investment.

Many of the entrepreneurs in these urban centers have embraced the new liberal discourse. As latecomers to the private sector, they have been more likely to support an Islamist political party and organize under an association of Islamic businessmen as a political counterweight to the Istanbul-based elites. In fact, tensions between the entrepreneurs in the provinces and the Istanbul region's industrial elites go back to the 1960's, when Necmettin Erbakan, the first Islamist political leader in the post-World War II era, based his political rise on his election as chairman of the national organization of chambers of commerce.^{xxxvii} Erbakan, however, appeared to favor various inward oriented industrialization schemes. In contrast, the industrialists of the Anatolian tigers have been supporting the AKP government and its export oriented policies in the most recent period.

Similarly, large segments of protected domestic industry had opposed closer ties with Europe in the 1970's. In contrast, both the Istanbul industrialists and the entrepreneurs of the Anatolian tigers have supported European integration since the 1990's. Turkey's favorable experience with export oriented industrialization and the discovery that the customs union, which began in 1996, did not lead to the destruction of industry as some had feared, both contributed to the change of attitude. After the acceleration of democratic reforms by the new, AKP-led parliament, the European Union decided in 2004 to begin membership negotiations with Turkey. It is not clear when or if Turkey will become a full member of the European Union. Nonetheless, the membership process is likely to accelerate institutional changes and create a stronger institutional framework for economic change.

IV.1 Agriculture and Structural Change

In the first half of the twentieth century, agriculture accounted for more than 80 percent of employment and more than half of the GDP in Turkey. Although these shares now stand at 35 percent and 10 percent, respectively, it is clear that any analysis of long-term structural change, economic growth and income distribution in Turkey needs to examine agriculture closely. (Graph 1)

Total population of Turkey has increased more than fourfold since 1914. Agricultural output has kept pace, increasing more than fivefold during the same period.^{xxxviii} As a result, Turkey continues to be mostly self-sufficient in food and agricultural goods today. Agricultural output declined by as much as 50 percent during the decade of wars after 1914, but began to recover in the 1920s. Increases in land and labor productivity were modest during this period, but population and total output began to exceed pre-World War I levels by the middle of the 1930s. Agricultural output began to increase more rapidly after World War II at about 3 percent per annum until 1980. This higher rate of growth was supported by rapid increases in the amount of land under cultivation. Thanks to the availability of land, the total area under cultivation more than doubled during the decade after World War II. After the land frontier was reached, a shift occurred towards more intensive agriculture in the 1960s. In this new phase, output rose more slowly but yields and land productivity increased more rapidly with the use of new inputs, agricultural machinery and equipment, fertilizers, irrigation and high yielding varieties of seeds. Total output and land productivity growth have slowed down to 1 percent per annum since 1980, but labor productivity growth has accelerated due to the more rapid labor movement away from agriculture in recent years.

In part because of the availability of land and in part due to government policies dating back to the nineteenth century, small to medium-sized enterprises have dominated agriculture in Turkey, except in the Kurdish southeast and in a number of fertile valleys opened to cultivation only in the nineteenth century, such as Çukurova and Söke.^{xxxix} This pattern has encouraged politicians to use government programs as an electoral instrument since the 1950s. With the manipulation of the intersectoral terms of trade in favor of agriculture, the incorporation of the rural population into the national market accelerated. Villages became important markets for textiles, food industries and gradually, for consumer durables, as well as agricultural machinery and equipment. In recent decades, non-agricultural activities including tourism and some manufacturing have begun to expand in the rural areas.

The large and expensive irrigation project on the Euphrates Valley in Southeastern Anatolia stands apart from all other rural development schemes since World War II. It originally envisaged the building of a number of interrelated dams and hydro electrical plants on the Euphrates river in order to irrigate 1.6 million hectares in the plain of Harran, which would double the irrigated area

under cultivation in the country. The project has since evolved into an integrated regional development program seeking to improve the social and economic fabric of a large and poor region of the country. Now one of world's largest and most ambitious regional developments projects, it includes large investments in a wide range of development-related sectors such as agriculture, energy, transportation, urban and rural infrastructure. However, until recently the project has been designed and implemented with a developmentalism-from-above approach, and without sufficient understanding or concern for the needs of the local population. The absence of a shared vision between the planners and the intended beneficiaries, namely the local Kurdish communities, has seriously limited the benefits of the project.^{xi}

Despite the large and persistent productivity and income differences between agriculture and the rest of the economy, the strength of small and medium-sized land ownership has slowed down the movement of labor to the rest of the economy. The dominance of small and medium-sized family enterprises in the rural areas was a legacy of the Ottoman era. After World War II, it combined with another Ottoman legacy, state ownership of land, to moderate urban inequalities during decades of rapid urbanization. Many of the newly arriving immigrants were able to use their savings from rural areas to build low cost residential housing (*gecekodu*) on state lands in the urban areas. They soon acquired ownership of these plots.

Large productivity and income differences between agriculture and the urban economy has been an important feature of the Turkish economy since the 1920s. Most of the labor force in agriculture are self-employed today in the more than 3 million family farms, including a large proportion of the poorest people in the country. The persistence of this pattern has not been due to the low productivity of agriculture alone, however. If the urban sector had been able to grow at a more rapid pace, more labor would have left the countryside during the last half century. Equally importantly, governments have offered very limited amounts of schooling to the rural population in the past. Average amounts of schooling of the total labor force (ages 15-64) increased from only 1 year in 1950 to about 7 years in 2005. However, average years of schooling of the rural labor force today are still below 3 years.^{xii} In other words, most of the rural labor force today consists of undereducated men and women, for whom the urban sector offers limited opportunities. The pace with which rural poverty and population will diminish in the decades ahead will depend on the degree to which the countryside experiences institutional changes and receives greater amounts of education and capital.

IV.2. Income Distribution

Data on income distribution in Turkey have not been not sufficiently detailed and do not easily allow long-term comparisons. In what follows, I will attempt such comparisons by employing simple indicators for which long-term series are available. I will examine changes in income distribution in twentieth century Turkey in three basic components: a) distribution within

agriculture, b) agriculture-non-agriculture or rural-urban differences and c) distribution within the non-agricultural or the urban sector. The relative weights of these three components have clearly changed over time. Until the 1950s, the first two components were more important. With urbanization after 1950, the second component and, especially since 1980, the third component began to dominate country-wide debates and issues and debates of income distribution.^{xiii}

Within the agricultural sector, the evidence on land ownership and land use points a relatively equal distribution of land, dominated by small and medium sized holdings in most regions. Despite the limitations of available data, it appears that the Gini coefficients for land distribution and land use have changed little since the 1950s.^{xiii} Moreover, distribution within the agricultural sector has been more equal than both the differences between the agricultural and urban sectors and the distribution within the urban sector.

Evidence for agriculture-non-agriculture differences in average incomes can be obtained from the national income accounts. These indicate that intersectoral differences were largest in the interwar period, especially due to the sharply lower agricultural prices during the Great Depression. The intersectoral differences in average incomes declined in the post-World War II period, in part because of government policies, but they increased again after 1980. The acceleration of urbanization and the rapid decline of the agricultural labor force in recent years have helped raise average incomes in agriculture. (Graph 4)

In the absence of other suitable series for long-term comparisons of income distribution within the urban sector, I will focus on the share of labor in per capita income. More specifically, I will follow the index of urban wages divided by output per person in the urban labor force. This ratio was quite low in the interwar period, because of the low levels of urban wages in relation to urban output per capita. This suggests a rather unequal distribution of income within the urban sector until World War II. Share of wages in urban income rose steadily after World War II, however. Together with the decline in intersectoral differences in average incomes, this pattern indicates that the post-World War II era until 1980 had a more equal or balanced distribution of income than other period in twentieth century. (Graph 4) In the globalization era since 1980, intersectoral differences in per capita incomes rose sharply, but they are declining in recent years with the rapid contraction of the agricultural labor force. It is clear, however, that the country-wide pattern in income distribution is now dominated by changes inside the urban sector. Disparities within the urban sector between labor and non-labor incomes and also between skilled and unskilled labor incomes have increased since 1980.

It is also interesting that for most of the twentieth century, the second and third components of the country-wide income distribution, namely intersectoral differences in average incomes and the distribution of income within the urban sector, have moved together. As the value of these two indices increased, income distribution tended to get more equal and vice versa (Graph 4).

This pattern suggests that governments were able to influence both components of the income distribution, especially during periods of multi-party electoral politics.

Large regional inequalities are a fourth dimension of income distribution, which especially need to be taken into account in the case of Turkey. Throughout the twentieth century, large west-east differences in average incomes have persisted. Until recently, the private sector-led industrialization process was concentrated in the western third of the country. The commercialization of agriculture had also proceeded further in the western and coastal areas. In addition to lower incomes, the eastern third of the country has also been lacking in infrastructure and services provided by the government, especially for education and health. The development of tourism in the west, the deterioration of the terms of trade against agriculture, and the rise of Kurdish insurgency in the southeast during the 1980s further increased the large regional disparities, adding to the pressures for rural-to-urban as well as east-to-west migration. Future progress on the Southeast Anatolia Project and the rise of the regional industrial centers may help reduce these disparities. However, economic development in that part of the country hinges, above all, on a political resolution of the Kurdish question.^{xliv}

Large east-west differences in average incomes have been accompanied by large and persistent regional inequalities in human development indicators since the 1920s. The latest country report for Turkey prepared by United Nations Human Development Program for the year 2002 indicates, for example, that the top 10 (out of 80) high income, western and northwestern provinces in the country, including Istanbul, had an average HDI equal to 0,825, which was close to the HDI for East-Central European countries such as Croatia or Slovakia. On the other hand, the poorest 10 provinces in the mostly Kurdish southeastern part of the country had an average HDI of 0,600, which was comparable to the HDI of Morocco or India in the same year.^{xlv}

V- Concluding Remarks

Trying to understand Turkey's economic record in the twentieth century, I began with a distinction between the proximate and the ultimate sources of economic growth. The former relates to the contributions made by the increases in factor inputs and productivity. The latter refers to aspects of the social and economic environment in which growth occurs. In this context, economic institutions are increasingly seen as the key to the explanation not only of economic growth and long-term differences in per capita GDP, but also the question of how the total pie is divided amongst different groups in society. I have emphasized that because there is generally a conflict of interest over the choice of economic institutions, political economy and political institutions are key determinants of economic institutions and the direction of institutional change.

Turkey's transition from a rural and agricultural towards an urban and industrial economy in the twentieth century occurred in three waves, each of which served to increase the economic and political power of urban and industrial groups. Increases in the economic and political power of these groups, on the whole, enabled them to shape economic institutions more in the direction they desired. Each of these waves of industrialization and economic growth, however, was cut short by the shortcomings or deficiencies of the institutional environment. The first of these waves occurred during the 1930s. After a series of legal and institutional changes undertaken by the new republic, a small number of state enterprises led the industrialization process and the small scale private enterprises in a strongly protected economy. Etatism promoted the state as the leading producer and investor in the urban sector. Ultimately, however, political and economic power remained with the state elites and these economic and institutional changes remained confined to the small urban sector.

The pace of economic growth was distinctly higher around the world in the decades after World War II. Turkey's second wave of industrialization began in the 1960s, again under heavy protection and with government subsidies and tax breaks. Rapid urbanization steadily expanded the industrial base. The state economic enterprises continued to play an important role as suppliers of intermediate goods. The new leaders, however, were the large scale industrialists and the holding companies in Istanbul and the northwestern corner of the country. With the rise of political and macroeconomic instability in the 1970s, industrialization turned increasingly inward and short-term interests of narrow groups prevailed over a long-term vision, culminating in a severe crisis at the end of the decade.

A third wave that began in the 1980s under conditions of a more open, export oriented economy widened the industrial base further to the regional centers of Anatolia. The rapid expansion of exports of manufactures played a key role in the rise of these new industrial centers, which began to challenge the Istanbul-based industrialists. Once again, however, rising political and macroeconomic instability, growing corruption and the deterioration of the institutional environment in the 1990s brought this wave to a sharp halt in 2001.

Ever since the Young Turk era, governments in Turkey have supported the emergence and growth of an industrial bourgeoisie. Helped by the growth of the urban sector and successive waves of industrialization, this bourgeoisie has been gradually wresting control of the economy away from the state elites in Ankara.^{xlvi} For most of the twentieth century the country's industrial elites had remained limited to those of the Istanbul region. With the rise of the Anatolian tigers, the economic base of the bourgeoisie has been expanding socially and geographically. The AKP government of the recent years has been supported by these emerging elites in the provinces.

The political and economic power of the workers, as well as their share in the total pie, was on the rise after World War II, especially during the ISI era after 1960. In the most recent era of

globalization, however, economic and institutional changes have combined to reduce the power of the workers and trade unions. Similarly, agricultural producers enjoyed a sharp increase in influence, if not power, with the shift to a multi-party political regime in the 1950s. Their influence and their ability to shape economic institutions have been declining gradually but steadily, however, with the decline in the share of agriculture in both the labor force and total output.

While economic power has clearly shifted from Ankara to Istanbul and more recently towards industrial groups in the provinces, the shift in political power and the move towards more pluralist politics have been far from easy or simple. Too often during the last half century, Turkey's political system has produced fragile coalitions and weak governments which have sought to satisfy the short term demands of various groups by resorting to budget deficits, borrowing and inflationary finance. The political and macroeconomic instability also led to the deterioration of the institutional environment. Rule of law and property rights suffered, and public investment including expenditures on education declined sharply. The weak governments have been too open to pressures from different groups or even individual firms or entrepreneurs seeking favors. As a result, the pursuit of favors or privileges from local and national governments has been a more popular activity for the producers than the pursuit of productivity improvements or competition in international markets.

The crisis of 2001 ushered in significant institutional changes, especially in the linkages between politics and the economy, with new attempts to insulate the latter from short term interventions in the political sphere. It remains to be seen, however, whether these institutional changes will be effective and durable or whether politics and the institutional environment will regress to their earlier ways. For most of the last century, Turkey has been considered to have a high economic potential. Similarly, it remains to be seen whether Turkey will remain a country with high economic potential, or whether more of this potential will be realized. It is precisely at this juncture that Turkey's integration to the European Union assumes critical importance. It is not clear when and if Turkey will become a full member of the European Union. Nonetheless, the membership process is likely to create a stronger institutional framework for economic change. For the economy, the key contribution of the goal of membership will be the strengthening of the political will to proceed with the institutional changes that may raise the water level in the glass and carry Turkey's economy to a new level.

REFERENCES

- Daron Acemoglu, Simon Johnson and James A. Robinson, "Institutions as a Fundamental Cause of Long-Run Growth", in P. Aghion and S. N. Durlauf (eds.), Handbook of Economic Growth, Elsevier, 2005, 385-471.
- Ayhan Aktar, "Varlık Vergisi Nasıl Uygulandı ?", Toplum ve Bilim, No. 71, 97-147.
- Tosun Arıcanlı and Dani Rodrik, "An Overview of Turkey's Experience with Economic Liberalization and Structural Adjustment", World Development , 18, 1343-1350, 1990.
- C. Emre Alper and Ziya Öniş, "Financial Globalization, the Democratic Deficit and Recurrent Crises in Emerging Markets", Emerging Markets Finance and Trade, 30, 2003, 5-26.
- Sumru Altug and Alpay Filiztekin, "Productivity and Growth, 1923-2003" in S. Altug and A. Filiztekin (eds.), The Turkish Economy: The Real Economy, Corporate Governance and Reform, Routledge Curzon Studies in Middle Eastern Economics, 2005.
- Sencer Ayata, "Bir Yerel Sanayi Odağı olarak Gaziantep'te Girişimcilik, Sanayi Kültürü ve Ekonomik Dünya ile İlişkiler", in S. İlkin, O. Silier, M. Güvenç (eds.), İlhan Tekeli için Armağan Yazılar, Tarih Vakfı, İstanbul, 2005, 559-590.
- Henry J. Barkey, The State and the Industrialization Crisis in Turkey, Westview Press, Boulder, Colorado, 1990.
- Behar, Cem (1995), The Population of the Ottoman Empire and Turkey, 1500-1927, State Institute of Statistics, Ankara.
- Boratav, Korkut, "Kemalist Economic Policies and Etatism" in A. Kazancıgil and E. Özbudun (eds.), Atatürk : Founder of a Modern State , C. Hurst, London, 1981, 165-90.
- Korkut Boratav, Türkiye İktisat Tarihi, 1908-2002, Seventh Edition, Ankara, 2003.
- Korkut Boratav, "Inter-class and intra-class relations of distribution under structural adjustment : Turkey during the 1980s", in Tosun Arıcanlı and Dani Rodrik (eds.), The Political Economy of Turkey : Debt, Adjustment and Sustainability, Macmillan, London, 1990.
- Korkut Boratav, Oktar Türel and Erinç Yeldan, "Dilemmas of Structural Adjustment and Environmental Policies under Instability: Post-1980 Turkey", World Development, 24, 1996, xx.
- Ayşe Buğra, State and Business in Modern Turkey: A Comparative Study, SUNY Press, Albany, 1994
- Ayşe Buğra, "Class, Culture and State, An Analysis of Interest Representations by two Turkish Business Associations", International Journal of Middle East Studies, 30, 1998, 521-39.
- Tuncer Bulutay, Yahya S. Tezel and Nuri Yıldırım, Türkiye Milli Geliri, 1923-1948, 2 volumes, University of Ankara Publications, Ankara, 1974.
- Merih Celasun, "Income Distribution and Domestic Terms of Trade in Turkey, 1978-1983", Middle East Technical University Studies in Development , Vol. 13, pp. 193-216, 1986.
- Merih Celasun and Dani Rodrik, "Debt, Adjustment and Growth: Turkey", in Jeffrey D. Sachs and Susan Collins (eds.), Developing Country Debt and Economic Performance, Vol. 3, 617-808, University of Chicago Press, 1989.
- N. F. R. Crafts, "The Human Development Index and changes in standards of living: Some historical comparisons", European Review of Economic History, Vol. 1, 1997, 299-322.
- N. F. R. Crafts, "The Human Development Index, 1870-1999: Some revised estimates", European Review of Economic History, Vol. 6, 2002, 395-405.

- Ali Çarkoglu and Mine Eder, "Development alla Turca: The Southeastern Anatolia Development Project (GAP)" in F. Adaman and M. Arsel (eds.), Environmentalism in Turkey, Between Democracy and Development, Ashgate Publishers, Aldershot, 2005, 167-184.
- Kemal Dervis and Sherman Robinson, "The Structure of Income Inequality in Turkey, 1950-1973", in E. Özbudun and A. Ulusan (eds.), The Political Economy of Income Distribution in Turkey, Holmes and Meier, New York, 1980 .
- Diaz-Alejandro, Carlos (1984), "Latin America in the 1930s", in R. Thorp (ed.), Latin America in the 1930s. The Role of the Periphery in the World Crisis, London, Macmillan, 17-49.
- Vedat Eldem, Osmanli Imparatorlugu'nun Iktisadi Şartlari Hakkinda Bir Tetkik , İş Bankasi Publications, Istanbul, 1970.
- Bent Hansen, Egypt and Turkey : The Political Economy of Poverty, Equity and Growth, published for the World Bank by Oxford University Press, Oxford and New York, 1991.
- Tevfik Güran, Agricultural Statistics of Turkey during the Ottoman Period, State Institute of Statistics, Ankara, 1997.
- Elhanan Helpman, The Mystery of Economic Growth, Harvard University Press, cambridge, Mass., 2004.
- Albert O. Hirschman, "The Political Economy of Import-Substituting Industrialization in Latin America", Quarterly Journal of Economics, Vol. 82, pp. 1-26.
- Reşat Kasaba, "Populism and Democracy in Turkey, 1946-1961", in E. Goldberg, R. Kasaba and J.S. Migdal (eds.), Rules and Rights in the Middle East, Democracy, Law and Society, Seattle, University of Washington Press, 1993, 43-68.
- Gülten Kazgan, "Türk Ekonomisinde 1927-35 Depresyonu, Kapital Birikimi ve Örgütlemeler" in Iktisadi ve Ticari Ilimler Akademisi Derneği, Atatürk Döneminin Ekonomik ve Toplumsal Sorunları , Istanbul, 1977, 231-74.
- Çağlar Keyder, State and Class in Turkey , A Study in Capitalist Development, Verso, London and New York, 1987.
- Angus Maddison, Two Crises. Latin America and Asia : 1929-38 and 1973-83, OECD Development Centre Studies, Paris, 1985.
- Angus Maddison, The World Economy. A Millenial Perspective, OECD Development Studies Centre, Paris, 2001.
- Angus Maddison, The World Economy: Historical Statistics, OECD Development Studies Centre, Paris, 2003.
- Şerif Mardin, "Turkey: The Transformation of an Economic Code", in E. Özbudun and A. Ulusan (eds.), The Political Economy of Income Distribution in Turkey, Holmes and Meier, New York, 1980, 23-53.
- Justin McCarthy, Muslims and Minorities. The Population of Ottoman Anatolia and the End of the Empire , New York University Press. New York and London, 1983.
- Vedat Milor, "The Genesis of Planning in Turkey, New Perspectives on Turkey, 4, 1990, 1-30.
- Ziya Öniş, "Turgut Özal and his Economic Legacy: Turkish Neo-Liberalism in Critical Perspective", Middle Eastern Studies, 40, 2004, 113-34.
- Ziya Öniş and Ahmet Faruk Aysan,, "Neoliberal globalisation, the nation state and financial crises in the semi-periphery: a comparative analysis", Third World Quarterly, 21, 2000, 119-139.

Ziya Önis and Steven B. Webb, "Democratization and Adjustment from Above", in Stephan Haggard and Steven B. Webb (eds.), Voting for Reform : Democracy, Political Liberalization and Economic Adjustment, Oxford University Press, 1994, 128-84.

Şık Özel and Şevket Pamuk "Osmanlı'dan Cumhuriyet'e Kişi Başına Üretim ve Milli Gelir, 1907-1950", Mustafa Sönmez (ed.), 75 Yılda Paranın Serüveni, Tarih Vakfı Yayınları, İstanbul, 1998, 83-90.

Şevket Pamuk, "Intervention during the Great Depression, Another Look at Turkish Experience", in Ş. Pamuk and Jeffrey Williamson (eds.), The Mediterranean Response to Globalization Before 1850, Routledge Press, London and New York, 2000, 321-339.

Şevket Pamuk, "War, State Economic Policies and Resistance by Agricultural Producers in Turkey, 1939-1945", in F. Kazemi and J. Waterbury (eds.), Peasants and Politics in the Modern Middle East, University Presses of Florida, 1991, 125-42.

Şevket Pamuk, "Agricultural Output and Productivity Growth in Turkey since 1880", in P. Lains and V. Pinilla (eds.), Agriculture and Economic Development in Europe since 1870, Routledge Press, 2007 (forthcoming).

Şevket Pamuk, "20. Yüzyıl Türkiye için Büyüme ve Bölüşüm Endeksleri", İktisat, İşletme ve Finans Dergisi, 235, October 2005, 1-15.

Şevket Pamuk, "Estimating Economic Growth in the Middle East since 1820", The Journal of Economic History, 66, 2006, 809-28.

Dani Rodrik, Arvind Subramanian and Francesco Trebbi, "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development", Journal of Economic Growth, 9, 2004, 131-65.

Şeref Saygılı, Cengiz Cihan and Hasan Yurtoglu, "Productivity and Growth in OECD Countries: an Assessment of the Determinants of Productivity", Yapı Kredi Economic Review, 12, 2001, 49-66.

Shorter, Frederic C., "The Population of Turkey after the War of Independence", International Journal of Middle East Studies, 17, 1985, 417-41.

İlkay Sunar, "Demokrat Parti ve Populizm", in Cumhuriyet Dönemi Türkiye Ansiklopedisi, 8, 1984, 2076-86.

İlhan Tekeli and Selim İlkin, 1929 Dünya Buhranında Türkiye'nin İktisadi Politika Arayışları, Orta Doğu Teknik Üniversitesi, 1977, Ankara.

İlhan Tekeli and Selim İlkin, Uygulamaya Geçerken Türkiye'de Devletçiliğin Oluşumu, Orta Doğu Teknik Üniversitesi, Ankara, 1982.

Tezel, Yahya S., Cumhuriyet Döneminin İktisadi Tarihi (1923-1950), Second Edition, Yurt Yayınları, Ankara, 1986.

Toprak, Zafer, Türkiye'de "Milli İktisat". 1908-1918, Yurt Yayınları, Ankara, 1982.

Turkey, State Institute of Statistics, Statistical Indicators, 1923-2002, Ankara, 2003.

Turkey, Devlet Planlama Teşkilatı, "Türkiye Ekonomisinde Sermaye Birikimi, Büyüme ve Verimlilik, 1972-2000", Publication Number 2665, Ankara, 2002.

UNDP, Turkey 2004, Human Development Report, Ankara, 2004.

John Waterbury, "Export Led Growth and the Center-Right Coalition in Turkey", Comparative Politics, Vol. 24, 1991, 127-45.

Erik J. Zürcher, Turkey, A Modern History, I.B. Tauris, London, 1993.

-
- i Based on The World Bank, World Development Report, and United Nations Development Programme, Human Development Report, recent years.
- ii There is growing evidence that this generalization applies to Turkey as well: Saygili, Cihan and Yurtoglu, "Productivity and Growth"; Turkey, Devlet Planlama Teşkilati, "Türkiye Ekonomisinde"; Altug and Filiztekin, "Productivity and Growth".
- iii Acemoglu, Johnson and Robinson, "Institutions"; Rodrik, Subramanian and Trebbi, "Institutions Rule", also Helpman, The Mystery.
- iv Pamuk, "Estimating".
- v Based on Behar, Population, Shorter, Population, Eldem, Osmanli and McCarthy, Muslims.
- vi Özel and Pamuk, "Osmanlıdan Cumhuriyete", based on a comparison of the Turkish agricultural statistics of the 1920s as summarized in Bulutay et. al., Türkiye Milli Geliri with the Ottoman agricultural statistics before World War I as given in Güran, Agricultural Statistics.
- vii Mardin, "Turkey: The Transformation".
- viii Özel and Pamuk, "Osmanlıdan Cumhuriyete".
- ix Tekeli and Ilkin, 1929 Dünya Buhranında, 75-92 and Tezel, Cumhuriyet Döneminin, 98-106.
- x Tezel, Cumhuriyet Döneminin, 139-62.
- xi Boratav, "Kemalist Economic Policies", 172-89; Tezel, Cumhuriyet Döneminin, 197-285; Tekeli and Ilkin, Uygulamaya Geçerken.
- xii Tezel, Cumhuriyet Döneminin, 233-37.
- xiii Pamuk, "Intervention", 332-34.
- xiv Shorter, "Population of Turkey".
- xv Pamuk, "Intervention", 334-37.
- xvi Pamuk, "War, State Economic Policies" and Aktar, "Varlık Vergisi".
- xvii Özel and Pamuk, "Osmanlıdan Cumhuriyete".
- xviii Keyder, State and Class, 112-14; Boratav, Türkiye İktisat Tarihi, 93-101.
- xix State Institute of Statistics, Statistical Indicators.
- xx Hansen, Egypt and Turkey, 338-44 and Keyder, State and Class in Turkey, 117-35.
- xxi Sunar, "Demokrat Parti ve Populizm".
- xxii Zürcher, Turkey, A Modern History, 235; Keyder, State and Class, 135-40; and Kasaba, "Populism and Democracy".
- xxiii Milor, "The Genesis of Planning".
- xxiv Hansen, Egypt and Turkey, 352-53; Barkey, The State and the Industrialization Crisis, chapter 4; Öniş and Riedel, Economic Crises and Long Term Growth, 99-100.
- xxv Hirschman, "The political economy".

xxvi State Institute of Statistics, Statistical Indicators; also Çeçen, Dogruel and Dogruel, "Economic Growth", 38-44.

xxvii Hansen, Egypt and Turkey, 360-78 ; State and Class, chap. 7 ; Barkey, The State and the Industrialization Crisis, chap. 5.

xxviii Barkey, The State and the Industrialization Crisis, 109-167.

xxix Celasun and Rodrik, "Debt, Adjustment and Growth".

xxx Keyder, The State and Class, chapter 8.

xxxi Aricanli and Rodrik, "An Overview".

xxxii Önis and Webb, Political Economy of Policy Reform, 33-38.

xxxiii Aricanli and Rodrik, "An Overview", 1348-50.

xxxiv Boratav, Türel and Yeldan, in World Development ; Aricanli and Rodrik, "An Overview", 1347-48.

xxxv Öniş, "Turgut Özal".

xxxvi Önis and Webb, Political Economy of Policy Reform, 38-47; also Waterbury, "Export-led growth".

xxxvii Ayata, "Gaziantep'te Girişimcilik"; Bugra, "Class, Culture and State".

xxxviii These long term trends are taken from Pamuk, "Agricultural Output".

xxxix Keyder, The State and Class, 177-40.

xl Çarkoglu and Eder, "Development alla Turca".

xli My calculations based on State Institute of Statistics, Statistical Indicators data on school enrollment and graduation.

xlii This section is based on Pamuk, "20. Yüzyil Turkiyesi".

xliiii Hansen, Egypt and Turkey, pp. 275-80 and 495-501.

xliv Çarkoglu and Eder, "Development alla Turca".

xlv UNDP, Turkey 2004.

xlvi Keyder, The State and Class and Bugra, State and Business.

Table 1 : Economic and Human Development Indicators for Turkey, 1913-2005

	1913	1923	1950	1980	2005	
Population (mill.)	17	13	21	45	72	
Share of urban pop (5000 inhab) in total pop (percent)	28	24	25	44	68	
Share of agriculture in the labor force (percent)	80	85	84	51	34	
Share of agriculture in GDP (percent)	55	42	54	26	11	
Share of industry in GDP (percent)	13	11	13	21	26	
GDP per capita, PPP adj. in 1990 US dollars	1200	710	1620	4020	7500	
GDP per capita as percent of (W. Europe+US)	29	16	24	25	30	
GDP per capita as percent of developing countries	168	n.a.	188	219	225	
GDP per capita as percent of World	79	n.a.	77	89	117	
Life expectancy at birth (years)	30 ?	n.a.	47	62	69	
Adult Literacy (ages above 15 in percent)	10	n.a.	32	69	89	
Annual Growth Rates (in percent)	1913-50	1923-50	1950-1980	1980-2005	1913-2005	1923-2005
Population	0.6	1.8	2.6	1.9	1.6	2.1
GDP per capita	0.8	3.1	3.1	2.5	2.0	2.9
Total agricultural output	1.0	4.5	2.9	1.2	1.7	2.9
Total industrial output	3.1	5.8	7.7	5.8	5.3	6.5

Notes: The inclusion of women working in the family farm in the labor force but the exclusion of urban women working at home from the labor force tends to overstate the share of agriculture in Turkish employment statistics.

Per capita GDP in constant US dollars is the basic indicator for examining long term increases in average incomes.

These series are calculated with a purchasing power parity adjustment in order to take into account the fact that price levels tend to be lower and the same dollar income purchases more in lower income countries.

Sources: For Turkish data except per capita GDP: State Institute of Statistics, Statistical Indicators, 1923-2002; for GDP per capita series: Maddison, The World Economy, 2001 and 2003; Eldem, Osmanlı, Özel and Pamuk, "Osmanlıdan Cumhuriyete" and Pamuk, "Estimating".

Table 2: Changes in the Human Development Index, 1913-2003

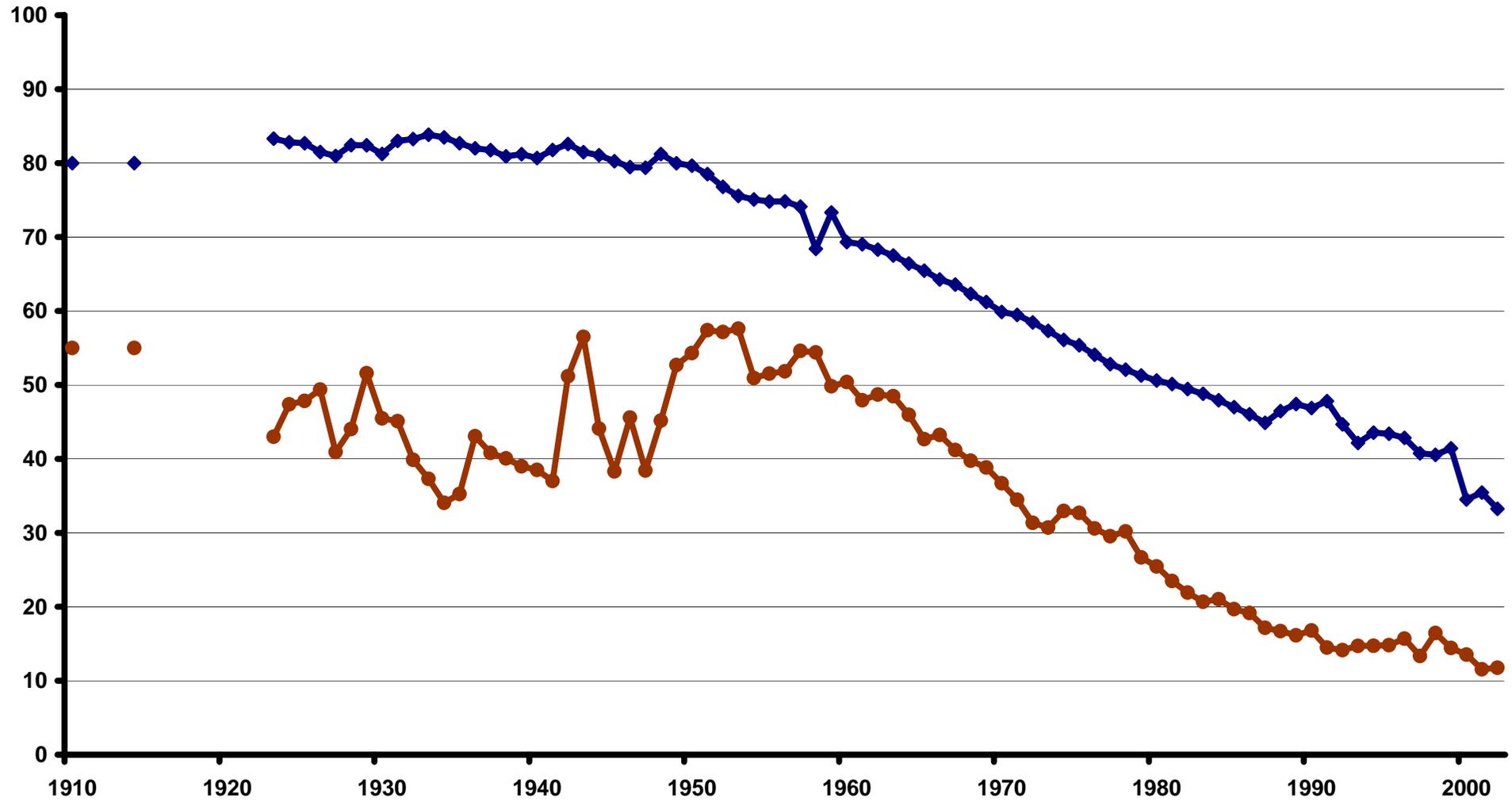
Country	1913	1950	1975	2003	Change in 1950-2003 as percent of possible
Western Europe	0.580	0.707	0.848	0.935	77.8
North America	0.643	0.774	0.861	0.945	75.7
Japan	0.466	0.676	0.851	0.943	82.4
China	n.a.	0.225	0.522	0.755	68.4
India	0.143	0.247	0.406	0.602	47.1
Africa	n.a.	0.271	n.a.	0.549	38.1
Greece		0.625	0.800	0.912	76.5
Russia	0.345	0.694	n.a.	0.795	33.0
Bulgaria	0.403	0.607	n.a.	0.808	51.1
Argentina	0.511	0.526	0.784	0.863	71.1
Mexico	0.270	0.484	0.688	0.814	64.0
Brazil	0.249	0.448	0.641	0.792	62.3
South Korea	n.a.	0.459	0.687	0.901	81.7
Malaysia	n.a.	0.407	0.614	0.796	65.6
Thailand	0.388	0.603	0.757	0.778	44.1
Indonesia	n.a.	0.337	0.467	0.697	54.3
Tunisia	n.a.	0.303	0.512	0.753	64.6
Iran	n.a.	0.331	0.507	0.736	60.5
Egypt	n.a.	0.291	0.433	0.659	51.9
Nigeria	n.a.	0.194	0.326	0.453	32.1
Turkey	0.190	0.382	0.592	0.750	59.5

Notes: Regional or continental averages are weighted by the population of the individual countries. For definition of HDI, see the text.

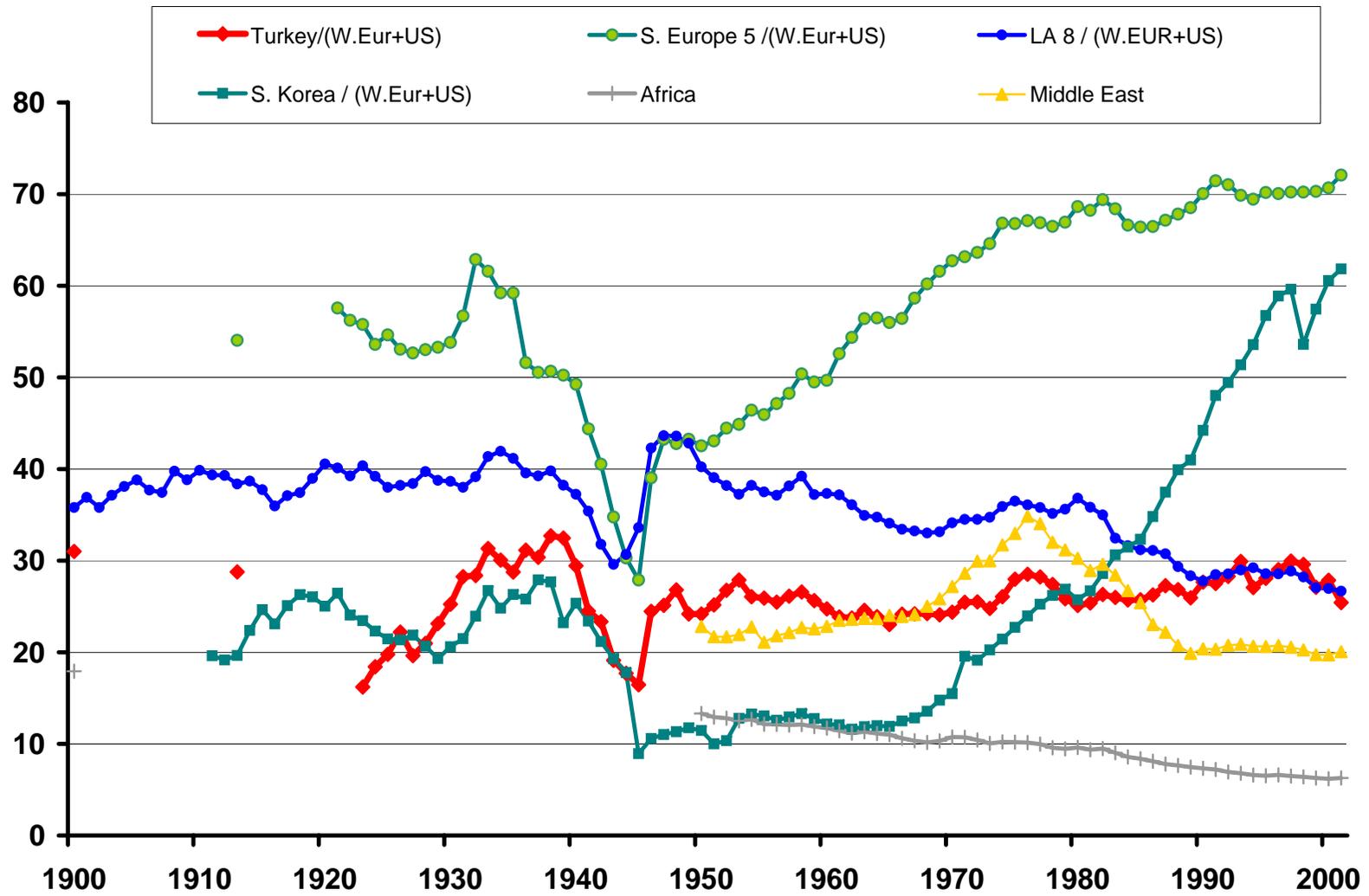
In the last column, the maximum possible improvement in HDI is 1-(HDI in 1950).

Sources: Crafts (1997) and (2002) for 1913-1975 values except for Turkey in 1913 and United Nations Development Programme, Human Development Report 2005 for 2003 values.

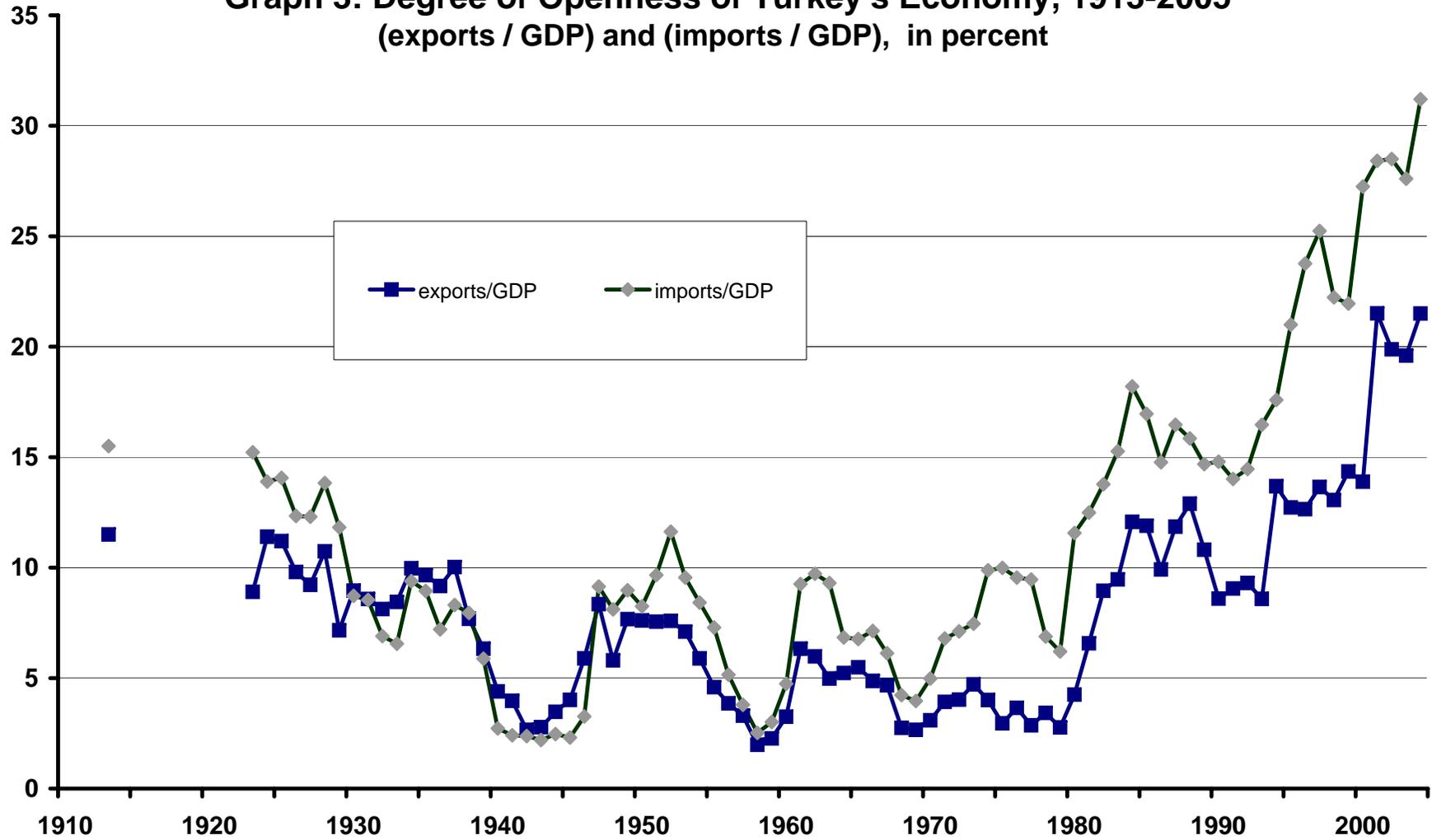
Graph 1: Share of Agriculture in GDP and Labor Force in Turkey, 1910-2000



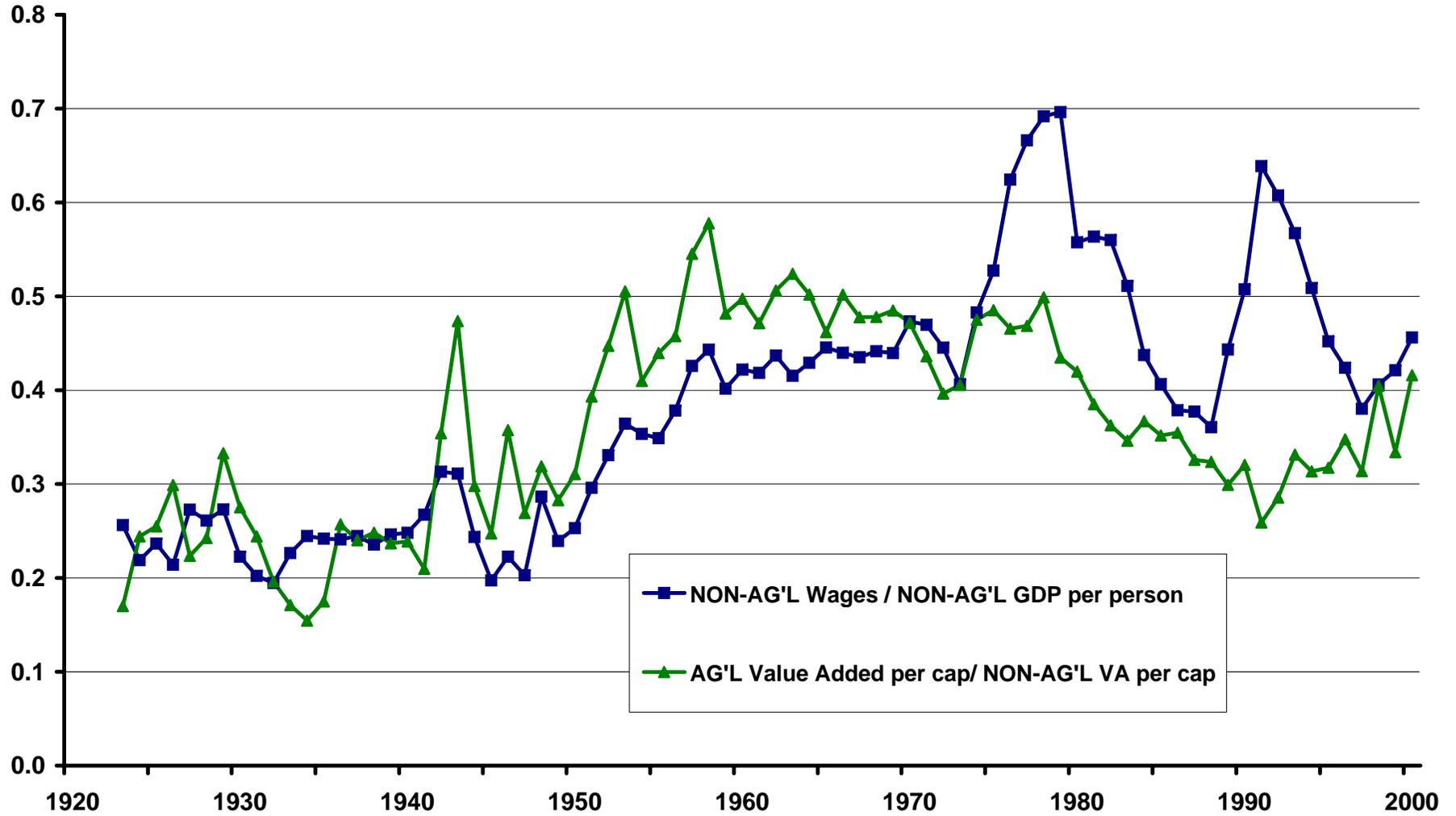
Graph 2: GDP Per Capita as percent of (US+W.Europe), 1900-2000



Graph 3: Degree of Openness of Turkey's Economy, 1913-2005
(exports / GDP) and (imports / GDP), in percent



Graph 4: Indices for Income Distribution in Turkey, 1923-2000



AUP Visiting Scholars Working Paper Series Calendar 2006

February 8, 2006

• **James ANGRESANO**
Albertson College of Idaho

Title: *China's Development Strategy:
A Game of Chess that Countered Orthodox Development Advice*

February 22, 2006

• **Nada MORA**
American University of Beirut

Title: *The Effect of Bank Credit on Asset Prices:
Evidence from the Japanese Real Estate Boom during the 1980s*

March 7, 2006

• **Renato FLORES**
Fundação Getulio Vargas, Rio de Janeiro
University of Antwerp

Title: *Integration Options for MERCOSUL-An Investigation using the AMIDA Model.*

March 14, 2006

• **Emanuel KOHLSCHÉEN**
University of Warwick

Title: *Why are there Serial Defaulters? Quasi-Experimental Evidence from
Constitutions*

March 16, 2006

• **Alicia GARCIA-HERRERO**
Banco de España

Title: *What Explains the Low Profitability of Chinese Banks?*

March 28, 2006

• **Ricardo HAUSMANN**
Kennedy School of Government, Harvard University

Title: *Global Imbalances or Bad Accounting? The Missing Dark Matter in the Wealth
of Nations*

April 5, 2006

• **Agnes BENASSY-QUERE**
Centre d'Etudes Prospectives et d'Informations Internationales (CEPII)
University of Paris X-Nanterre

Title: *ECB Governance an Enlarged Euro-zone*

April 12, 2006

• **Vincent TIBERJ**

CEVIPOF - Institut d'Etudes Politiques (Sciences Po.)

Title: *Antisemitism in an Ethnically Diverse France*

April 26, 2006

• **Carlos ELIZONDO**

Ambassador of Mexico to the Organization of Economic Cooperation and Development (OECD)

Title: *Challenges and Opportunities of Mexico's membership in the OECD*

May 2, 2006

• **Pierre CAHUC**

Université Paris I
CREST-INSEE

Title: *Civic Attitudes and the Design of Labor Market Institutions: Which Countries can Implement the Danish Flexicurity Model?*

May 4, 2006

• **Lee ALSTON**

University of Colorado at Boulder
Director, Program on Environment and Behavior Institute of Behavioral Science Research Associate, NBER

Title: *A Framework for Understanding the New Institutional Economics*

October 16, 2006

• **Guillaume DAUDIN**

Edinburgh University
OFCE, Sciences Po
Chaire Finances Internationales, Sciences Po

Title: *A History of Distance*

November 21, 2006

• **Christophe BERTOSSI**

French Institute of International Relations (Ifri)

Title: *How does the French Republic deal with Ethno-Cultural and Religious Diversity?*

November 21, 2006

• **Javier SANTISO**

United Kingdom Department for International Development (DFID)

Title: *Parliaments and Budgeting: Understanding the Political Economy of the Budget in Latin America*

December 5, 2006

• **Michel WIEVIORKA**

École des Hautes Études en Sciences sociales (EHESS)
Centre d'Analyse et d'Intervention Sociologique (CADIS)

Title: *Racisme : Changements dans le Phénomène, Changements dans l'Analyse*

Papers Presented in Academic Years 2003/2004/2005

November 24, 2003

• **Juan J. CRUCES**

Universidad de San Andrés (Buenos Aires, Argentina)

Title: *The Term Structure of Country Risk and Valuation in Emerging Markets*

December 11, 2003

• **Daniel COHEN**

Ecole Normale Supérieure, Paris
OECD Development Centre

Title: *Why Are Poor Countries Poor?*

A Message of Hope which involves the resolution of the Becker/Lucas Paradox

January 28, 2004 U

• **Martin GRANDES**

Département et Laboratoire d'Economie Théorique et Appliquée (DELTA)
Ecole Normale Supérieure, Paris
Ecole des Hautes Etudes en Sciences Sociales (EHESS)

Title: *Convergence and Divergence of Sovereign Bond Spreads:
Theory and Facts from Latin America*

February 4, 2004

• **Jérôme SGARD**

Centre d'Etudes Prospectives et d'Informations Internationales (CEPII)
Université de Paris-Dauphine

Title: *The International Financial Architecture & Sovereign Bankruptcies*

February 18, 2004

• **Stephen HABER**

Stanford University

Title: *Related Lending and Economic Performance: Evidence from Mexico*

February 19, 2004

• **Federico STURZENEGGER**

Universidad Torcuato Di Tella (Buenos Aires, Argentina)

Haute Ecole de Commerce, HEC (France)

Title: *Culture and Social Resistance to Reform:
A Theory about the Endogeneity of Public Beliefs*

March 4, 2004

• **Paul DE GRAUWE**

Catholic University of Leuven (Leuven, Belgium)

Title: *A Theory of Bubbles and Crashes*

March 17, 2004

• **Pablo MARTIN ACENA**

Universidad de Alcala (Madrid, Spain)

The American University of Paris

Title: *Spain in Conflict: The Financing of the Civil War, 1936-1939*

March 25, 2004

• **Thierry VERDIER**

Département et Laboratoire d'Economie Théorique et Appliquée (DELTA)

Ecole Normale Supérieure, Paris

Title: *Globalization and the Empowerment of Talent*

April 14, 2004

• **David GALENSON**

University of Chicago

Title: *A Portrait of the Artist as a Very Young or Very Old Innovator:
Creativity at the Extremes of the Life Cycle*

April 22, 2004

• **Michael BORDO**

Rutgers University

Title: *Good vs. Bad Deflation: Lessons from the Gold Standard Era*

April 23, 2004 - 16:30

• **Javier SANTISO**

Banco Bilbao Vizcaya Argentaria, (BBVA, Spain)

Chief Economist for Latin America

Title: *Wall Street and Emerging Democracies: Financial Markets and the
Brazilian Elections*

April 29, 2004

• **Erik WRIGHT**

University of Wisconsin

Title: *Deepening Democracy*

September 23, 2004

• **James GALBRAITH**

The University of Texas at Austin

Title: *Unemployment, Inequality and the Policy of Europe: 1984-2000*

September 30, 2004

• **Eric HERSHBERG**

Princeton University

Title: *Industrial Upgrading: Economies Seeking to Prosper under Conditions of Globalization*

October 13, 2004

• **Felipe LARRAIN**

Catholic University of Chile

Title: *Short vs. Long Recessions*

October 28, 2004

• **Michel ROCARD**

European Parliament

President of Committee on Culture, Youth, Education, Media and Sports

Former French Prime Minister

Title: *Transatlantic Relations*

November 24, 2004

• **Francesca BEAUSANG**

London School of Economics and Political Science

Title: *Outsourcing and the Internationalization of Innovation: A Development Opportunity?*

December 2, 2004

• **Marc FLANDREAU**

Institut d'Etudes Politiques (Sciences Po)

Observatoire Français des Conjonctures Economiques (OFCE)

Title: *The Making of Global Finance 1880-1913*

December 9, 2004

• **Richard PORTES**

Centre for Economic Policy Research, CEPR (London)

London Business School

Columbia University

Title: *Towards a Lender of First Resort*

February 10, 2005

• **Herbert FRIED**

Brown University

Title: *Old Science, New Science: Rubbing Shoulders with Religion and Literature*

April 27, 2005

• **Jorge CARRERA**

University of La Plata

Title: *Privatization Discontent and Its determinants: Evidence from Latin America*

May 3, 2005

• **Dr. Jérôme DESTOMBES**

London School of Economics and Political Science

Title: *From Long-Term Patterns of Seasonal Hunger to Changing Experiences of Everyday Poverty: North-Eastern Ghana C. 1930-2000*

May 9, 2005

• **Peter LINDERT**

University of California

Title: *Growing Public: Is the Welfare State Mortal or Exportable?*

Copies of the Working Papers and the Calendar of the Series are available on
The American University of Paris web site: www.aup.edu

For any other information please contact:

Adriana Ferrer

The American University of Paris

6, rue du Colonel Combes

75007 Paris, France

e-mail: aferrer@aup.edu

Telephone : (33.1) 40.62.07.21

fax: (33.1) 47.53.81.33