

EVALUATION, CRITICISM AND ALTERNATIVE FORMS OF THE DEVELOPMENT MODELS FROM A HISTORICAL PERSPECTIVE: THE CASE OF TURKEY AND HUNGARY

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In this study, firstly the macroeconomic situation and development problems of developing countries (Turkey and Hungary) will be presented by certain indicators. With a critical approach, traditional development models will be examined; alternative models that could contribute to solving the problems of developing countries, especially transition economies of Eastern Europe, will be explained and a stable development process for them will be outlined. In this respect, as a suggestion of solution, the state and the planning should be placed in the center of the economy.

The main theme of this study is to criticize the traditional development models and to guide the developing countries by explaining the alternative development models.

Keywords: developing countries, development models, transition economies, Turkey and Hungary

Introduction

Economic development is a concept that, affecting people's opinion greatly and having an extremely attractive historical perspective, has been transformed into a belief. Beginning especially with the Renaissance, a shift was made from a God-centered world to a human-centered world (Balci, 1992: 31). In this context, further to the idea "man is master of nature", economic development is in fact nothing but the success attained by man in his process of becoming the master of nature. People have devised different theories, models, and strategies in order to gain success. Although each model has

been different, all the models had a common characteristic: improving the wealth and happiness of people. It is assumed that the path to wealth and happiness was based on science and industrialization.

The primary purpose of this study is, drawing a roadmap for developing countries (DC), to help them with the model they are supposed to follow so they can attain success. Firstly, two DC models in the region are discussed. As such models, Turkey and Hungary have been selected. The reason why Turkey has been selected is that Turkey has chosen to strive for development, adopting traditional capitalist models since 1923, the year of her foundation. The reason why

Hungary has been selected is that Hungary, on the other hand, practiced a state control model based on a central planning mechanism until 1990s and shifted to free market economy (traditional model) afterwards. Showing the basic macroeconomic state of these two countries, the point they have reached in the developmental struggle is interpreted and then their development models are revealed. While explaining the development models, instead of filling the study with many details by quoting the opinions of the economists who had studied the issue, two groups of models have been addressed, each proposing a different thesis. The first group comprises the “traditional models” proposed by classic and neo-classic economists, reflecting the capitalist approach originated in developed countries, and in the second group the neo-Marxist development models that had been proposed in response to traditional models are explained.

1. Economic state of selected countries

1.1. Turkey

Turkey’s economy is discussed in two periods, one between 1923 and 1980 and the other from 1980 onwards. The reason for such discrimination is that there have been major constrictions on the policies that had been followed until January 24, 1980.

1.1.1. The period 1923–1980

In 1923, the year of its foundation, Republic of Turkey was economically considerably behind the developed western countries in terms of its statistical outlook as well as its institutional structure. Having to pay the General Obligations she had inherited in terms of economy from Ottoman Empire, Turkey was in a position of an underdeveloped country with a great majority of

its public being poor and uneducated and with its almost nonexistent industrial companies being financially weak.

During the period between 1923 and 1929, the policies put into practice were open to the West. The reason to such practice was the provisions of Lausanne Treaty. Te^ovik-i Sanayi Kanunu (lit.: Code on Encouraging the Industry) was provided to help national industry develop, and customs measures were introduced to facilitate import of several raw materials. National banks were established; mines and cigarette manufacturing were nationalized and operated, with their production reserved for national economy. In the period between 1924 and 1929, GNP increased by 10.9% while industrial production increased by 8.5% (DTM, 2004). Despite the encouraging position of the state, its private sector failed in making the desired level of progress.

The 1929 economic distress affected all the countries that pursued liberal economy policies. After 1930, nationalist, interceptive, and protective policies prevailed all around the world. Turkey, acting accordingly, introduced several measures in order to end the distress and ensure economic development. Firstly, Central Bank of Turkey was established in 1930, and in 1931 a code was provided for determining a quote for imports, to control the exports, and thus the first steps towards protectiveness were made. In the same year, Industry Congress was summoned, and a series of codes that increased the state control over various aspects of industrial life were provided for in 1932. With the First Five-Year Industry Plan that covered 1934–1938, the state began owning and operating state enterprises directly. First of all companies, the majority of which were owned by foreigners, were nationalized.

Briefly, we can asset that the period between 1923 and 1938, which may be referred to as Ata-

turk Era, was “a well balanced and rapid combined economic development model”, as we refer to it today (Çelebi, 2002: 26).

As the targets of the first plan had been reached, the Second Five-Year Industry Plan was prepared in 1938. During the years that would normally have been covered by this plan there was WWII and the state had to take some measures appropriate for warfare economics.

The increased dominance of liberal policies all around the world with the end of WWII affected also Republic of Turkey. With the shift to multiparty democracy between 1945 and 1950, the state intervention into economics increased, foreign trade was liberated, private entrepreneurship was encouraged and overall a more liberal economy policy was put into practice. Despite Turkey's becoming member of international institutions such as IMF and World Bank in this period, the desired growth in real GNP failed. Excessive credits and loans raised by banks to agriculture and industry sectors as well as poorly planned investments resulted in pressure on prices, and inflation began boosting. Although in 1958 a series of economic measures such as tight monetary and finance policies and export-encouraging measures had been adopted in order to once again stabilize the economy, the inflationist trend could not be stopped. Further to these negative conditions the government had to take a moratorium decree in 1958.

In this economic and political view and with the military coup that took place on March 27, 1960, a new constitution was prepared and the studies for preparing a long-term economic plan were once again launched. In line with that, State Planning Institution was established in 1960, and five-year plans were prepared beginning with 1963. In these plans, “increased growth rates” and “structural change for industrialization” were the primary objectives.

The average economic development rates for the planned periods were as follows: 6.6% between 1963 and 1967, 6.3% between 1968 and 1972, 5.2% between 1973 and 1977, 1.2% in 1978 (one-year plan period), 1.7% between 1979 and 1983, 7.1% in 1984 (one-year plan period), 7.1% between 1985 and 1989, 4.7% between 1990 and 1994, 7.1% between 1996 and 2000 (DPT, 2004).

In the First Plan Period (1963–1967), certain codes were provided for to encourage investments and exports. The difference between the Second Plan (1968–1972) and the first plan is that the Second Plan was a multi-sector plan. Agriculture, mining, manufacturing, construction, services, and public sector were all addressed separately, and the plan contained two aspects, national and international. The purpose of this plan was to ensure a rapid development of Turkey's economy and the stability of this development. In addition, industry sector had a special emphasis as a “motor sector” in this plan. In this plan period, domestic products were substituted with import products on the one hand, and production of intermediate goods was emphasized on the other hand. Furthermore, export encouragements such as tax refund and prioritized foreign currency allocations were emphasized and export unions were founded.

A significant structural change in the Third Plan (1973–1977) was inevitable due to customs-free discounts realized with execution of the EU–Turkey Association Agreement in 1963 and with its provision in legal terms in January 1, 1973, as well as a failure in the realization of growth rate in industry.

A characteristic feature of the Third Plan period is government's going through dire straits, especially in terms of infrastructure. It is believed that the import-substitute strategies that ensured continuous growth were the real reason

lying underneath. The growth continued as long as the import-substitute policies were aiming towards undurable consumption goods (such as processed food and textile); however, from the mid 1960s when durable consumption goods and intermediate goods had been aimed at, such policies did not succeed as much. The limited domestic market, failure in reaching the desired level of exports, increase in capital-intensive investments, and a limited-capacity usage rendered keeping up the growth rate more and more expensive. The petroleum prices that became four times higher, petroleum crises in 1973 affected Turkey greatly. The deficit between national savings and investments became greater through the end of 1970s and the balance of Public Economic Enterprises deteriorated badly. As a consequence, budget deficit became greater and a rapid increase in inflation prevailed. The financial transactions balance gave a deficit due to increased imports and idle exports. The deficit reached 8% of GNP and 92% of foreign currency revenues in 1977 (DTM, 2004). Such gaps were financed by means of private foreign capital and reserves. However, such financing method resulted in a three-fold deterioration: increase in foreign debts, impaired debit structure, and a decrease in convertible foreign currency reserves. As a result of such economic imbalances, Economic Stabilization Decrees were taken on January 24, 1980.

1.1.2. Post 1980

In the post-1980 era, support given to industry has been focused on the manufacturing stage, and foreign capital encouraging means were increased. In the economical stabilization program, the objectives were an increase in exports and foreign currency revenues, controlling the inflation rate, opening the economy to the west, and giving the economy a dynamic structure suitable for international competitive environ-

ment. On January 24, 1980 the Turkish Lira was devaluated approximately by 49% against US Dollar, and daily exchange rate adjustments took place commencing with July 1, 1981. With the purposes of ensuring the competitive edge of export products in foreign markets and increasing the share of industrial goods in exports, yet other new measures were implemented. In this context, tax refunds in exports were adopted once again, and the import of input materials to use for manufacturing aimed at exports was exempted from the import tax. The Export Encouragement Fund was established under control of Central Bank of Turkey, and exporters with encouragement certificate were allocated credit from this fund. An obligation for commercial banks was introduced, so commercial banks would have to use 15% of loans for exports of industrial goods. In addition, further measures were introduced to facilitate establishing free zones and bound warehouses as well as facilitating transactions. As a result of such measures, exports almost doubled in three years in terms of quantity and foreign currency revenues, and the share of exports in GNP increased to 10.5% in 1982 from 4.1% in 1979 (DTM, 2004). Exports, increasing almost 16 times, became 45.8 billion US Dollars in 2003 versus 2.9 billion US Dollars in 1980, and the export / import ratio has become 68.2% in 2003 versus 36.8 in 1980 (DPT, 2003).

The other most important and most characteristic elements of January 24 resolutions are that the prices of major production factors such as labor and capital were dictated by market conditions. In this context, the commission on price supervision was dismissed.

Especially from the second half of the 1980s on, governments introduced the “build-run-transfer” model in order to accelerate infrastructure investments in industries and to meet source needs in better terms (TBB, 2004). Ha-

ving implemented January 24 resolutions successfully until 1988, Turkey, due to its failure in increasing its current established capacity and refreshing its short-term capital stock, entered into an unstable growth period that had many stops and startovers. In 1988 and onwards, unemployment reached a high level, budget deficits increased, and in parallel price increases boosted. In order to maintain the balance in the markets once again, a series of measures were introduced in February 1988. The purpose of such measures can be summarized as an increasing attractiveness of Turkish Lira savings and thus increasing the demand for Turkish Lira; alleviating imports, replenishing exports and eliminating overheating in economy by means of conservation in public expenditure. The reducing of public investments for the sake of conservation in public expenditures negatively affected investment decisions as well. Increase in interest rates, on the other hand, became a factor that also increased financing costs and slowed down manufacturing.

At the 3rd Izmir Economy Congress held in June 1992, Turkey's goal of making into 15 well-developed countries of the world was addressed. It was stressed out that the key factor in achieving such goal is a free market economy that grows together with the democracy and that government's intervention in economy should be reduced without making any compromises from the policy of approaching the West.

In 1990s, real investments were refrained due to political interests. Instead of international markets-centered growth, a domestic market-centered growth policy was adopted and therefore economy was brought into a vicious circle with excessive debts, an interest burden that was impossible to bear, and an alleviated foreign exchange policy (Yentürk, 2004). Turkey suffered the November 2000 and February 2001 economic crises in

such vicious circle, and an economic shrinking process that later bore a structural identity followed. These crises resulted in a major destruction of financial markets on the one hand and also caused great regressions in production and labor.

In Turkey's economy that we have attempted to summarize so far, one can see that a significant structural change has been realized since 1923. Despite the positive developments in growth performance, free market economy, economy's integration into international markets, and improving the competitive edge, certain issues such as macroeconomic instability, failure in introducing solutions of certain basic structural problems, high labor level in agriculture, and defeat in income distribution continue (Temel, Boyar and Saygılı, 2004: 49).

Turkey, despite the fact that she has grown, although slowly, in economical means after January 24 resolutions, has failed to realize a political, legal, cultural, educational, institutional and especially social change; on the contrary, there have been significant backwards in these fields. Especially in the recent years we see an economic environment where industrialization has been abandoned, productive investments have been given up, and unearned income prevails.

In the light of the above-mentioned developments, we may assert that Turkey is a transition economy that strives to shift from state economy/mixed economy to market economy but fails to finalize such shift since 1980s (Akalın, 2003: 7).

Let us content with this chapter by giving a table on Turkey's economy, explained in this chapter in summary.

1.2. Hungary

By the late 1980s, the countries in transition were in varying states of implementing finan-

Table 1: Macroeconomic indicators (Turkey)

Years	GNP per capita US \$	GNP Growth Rates (%) (at 1968 prices)	Total exports (millions of US \$)	Total imports (millions of US \$)	Foreign debt (millions of US \$)	Inflation rates
1924	50	14,9	82	100		10.1
1930	52	2,2	71	70		-24.2
1940	102	-4,9	81	50	252,8	25.4
1950	166	9,4	263	286	277	-9.9
1960	335	3,4	321	468	558	5.0
1970	519	5,8	589	948	2.297	6.5
1980	1.570	-1,1	2.910	7.909	16.227	107.3
1990	2.712	9,0	12.960	22.302	49.035	53.1
2000	2.986	6,3	27.775	54.503	106.392	39.0
2001	2.101	-9,5	31.334	40.410	115.110	68.5
2002	2.609	7,8	36.059	50.146	131.200	29.7

Sources: SPO, SIS and TOBB.

Note. For the other macroeconomic indicators see websites:

<http://ekutup.dpt.gov.tr/ekonomi/gosterge>, www.tobb.org.tr/yayinlar/ekonomikbuyuklukler

cial, fiscal and managerial reforms, and Hungary was deemed as one country with a willingness to consider reform (Lyles, Saxton and Watson, 2004: 358). In 1989, Hungary entered a new phase of government by making dramatic political and economic reforms. However, the economic and political transformation depressed its economic activity. Between 1989 and 1996, production and household incomes fell drastically and consumer prices rose very steeply (Kattuman and Redmond, 200: 42). The HDF (Hungarian Democratic Forum) introduced radical advances for free enterprise into the economic system and reduced the state welfare system. At the end of 2002, 40% of capital in Hungary was controlled by the private sector, versus 4% in the 1980s, and nowadays the private sector makes up 80% of the GDP (www.seeq.com, 2004).

Hungary, in contrast to the “shock therapy” implemented by Poland and Czech Republic, has chosen to shift to market economy “gradually” by reforming its institutions, tax system and foreign trade regime (Kotler, Jatusripitak and Maesincee, 1997: 78). In such transition, the state, instead of distributing the enterprises it owned, has chosen to sell them to the public and borne a supervising and directing mission in the privatization process. Further to codes provided and steps made for liberalization of the system as well as private sector’s rapid growth, increasing its share in economy, Hungary has become an attraction center of foreign capital. With this approach, Hungary has become the country that made the best start in market economy transition among Middle and Eastern European countries.

Hungary's economic successes were based on the long-lasting effects of significant structural reforms and privatization during the 1990s, which also facilitated Hungary's outward orientation, foreign direct investment inflows, strong export performance, flexible labor and product markets, and a sound banking system (IMF, 2004). The success was also rooted in undertaking macroeconomic adjustment measures when needed, and in

maintaining an adequate level of international competitiveness.

Today, in assessments made by OECD and World Bank, it is assumed that the country has overcome the most important setbacks in the transitional period and that she has a mainly stable structure.

Some of the basic data on Hungary's economy are given in Table 2.

Table 2. Macroeconomic indicators (Hungary)

Years	GDP per capita US \$-Euro	Total exports (millions of US \$) (at current prices)	Total imports (millions of US \$) (at current prices)	Inflation rates
1992	3.608 (US\$)	12.683	12.440	23.0
1993	3.745(US\$)	11.035	14.066	22.5
1994	4.046(US\$)	12.997	15.470	18.8
1995	4.367(US\$)	19.840	19.771	28.2
1996	4.402(US\$)	21.893	21.684	23.6
1997	4.415(US\$)	25.211	24.743	18.5
1998	4.077(Euro)	29.459	30.154	14.1
1999	4.402(Euro)	31.302	32.589	10.0
2000	4.961 (Euro)	34.953	36.753	9.8
2001	5.679(Euro)	38.541	39.324	9.2
2002	6.782(Euro)	42.440	43.901	5.3
2003	7.233(Euro)	43.008	47.675	4.7

Sources: <http://portal.ksh.hu>, <http://www.imf.org/external/pubs/ft/weo/2004/01/pdf/appendix.pdf>, <http://unstats.un.org/www.dtm.gov.tr/ead/ulkegos/MP.xls>

2. Development models

2.1. Traditional development models

At this point, explaining the presumptions proposed by classic and neoclassic economists while defining the economic development models firstly will be useful so as to understand their approach to this issue and their real motives.

Such presumptions are as follows:

- a) underdeveloped countries, due to their socio-economical and cultural structure, are locked in a vicious circle. Escaping from such vicious circle of poorness is impossible without the help of developed countries;
- b) growth and economic development are synonyms;

- c) the propelling force of growth is the investment;
- d) underdeveloped countries do have the resources needed for investments; however, such resources are “idle resources”. Underdeveloped countries may not succeed in transforming their potential resources into investment unless they change their traditional structure. And such structural change is only possible with the help of developed countries (external help);
- e) as the “mutual interest hypothesis” prevails, the wealth of all countries increases in foreign trade. Underdeveloped countries must concentrate on their economic relationships with developed countries in order to realize their economic development;
- f) there is a single line of evolution with regards to economic development and all communities go through the identical stages inevitably.

Now let us reveal the real motive behind all these presumptions.

2.1.1. Mutual interest in foreign trade hypothesis

Two basic assumptions upon which A. Smith’s “*absolute advantages theory*” and D. Ricardo’s “*comparative advantages theory*” were based on are as follows: the first one is “if countries, very much like people, specialize on the product, in production of which they are the superior (product that they can manufacture relatively cheaper), in their foreign trade efforts they will be better off developed in comparison to an autarkic state”, because a country manufactures and exports the product in which she is relatively specialized, and abandons the manufacturing of the products that she would normally manufacture at excessive costs, and imports such products. This way free international trade increa-

ses the wealth of all involved countries. In other words, in accordance with classical foreign trade theory, the “mutual interest hypothesis” in foreign trade is valid. According to this opinion, developed countries must specialize in industrial goods while underdeveloped countries must specialize in agricultural goods (basic goods). The second basic assumption is that the countries that specialize in agricultural goods would have greater advantage in the long term. That is why, while industrial goods can be manufactured at greater scales, there is a relative scarcity in agricultural supplies. Therefore in the long run there will be a change in favor of agricultural goods in goods’ exchange rates. In other words, although each country taking part in foreign trade would benefit from it, underdeveloped countries would have greater advantage in the long run. However, liberalization of foreign trade and its pursue in line with Ricardo’s “comparative advantages theory” have a twofold, result, different for developed and underdeveloped countries: developed countries, on the one hand, have sold industrial goods (processed goods) to underdeveloped countries without having to encounter any obstacles, making a considerable added value revenue, and their industries and wealth have developed at an increasing rate. Underdeveloped countries, on the other hand, have sold their agricultural products (unprocessed goods) to developed countries, their industries have failed to grow and remained at the initial state due to dense foreign competition, their labor failed to increase and they have become foreign-supply-dependant. Due to the demand elasticity of agricultural products lower than 1 and that of industrial goods greater than 1, the foreign trade deficit of underdeveloped countries has increased gradually. Moreover, regardless of their general outlook, almost all economists have agreed on industrialization being

the cornerstone of the economic growth. In the light of this opinion, we may object to foreign trade idea based on specialization uttered by traditional economists.

A survey carried out by experts of United Nations revealed that agricultural goods have lost their value by 40% against industrial goods in an approximately 50-year period between 1876–1880 and 1936–1938 (Başkaya, 1994: 108). No doubt, demand elasticity of basic goods being smaller than 1, in parallel to technological development of synthetic products substituting natural products, and considering that the major portion of basic goods are foodstuff, saturation point of foodstuff being before technological products has a great impact in such value loss.

In order to succeed in foreign trade, maintaining a powerful economy within the country and improving the economy by creating the capability of production, innovations and technology are essential.

2.1.2. Getting out of the vicious circle

Underdeveloped countries are locked in a vicious circle that can be so simply summarized with the infamous proposition of Ragnar Nurske, “a country is poor because it’s poor”. Insufficiencies in infrastructure and insufficiency in demand due to the low income of the individuals in underdeveloped countries damage the profitability of the investments and fail to generate a socioeconomic environment that encourages the investor to carry out further new investments. Such vicious circle can only be broken by means of a detailed investment attack. Since an underdeveloped country cannot make such an investment attack by itself, the only solution is to get outer help from developed countries.

There comes to mind two questions with regard to propositions made for getting out of the vicious circle. The first is: From what countries did today’s developed countries get help in or-

der to reach their current developed state? The second is: What is the macroeconomic target that Turkey and Latin American countries that received help from developed countries and international credit organizations could succeed in reaching? Despite having rich natural resources, if these countries are still struggling with a series of economic problems today, responsible for such problem are the developed countries that transfer (exploit) idle resources to their country in disguise of outer help.

2.1.3. Going through identical historical stages

According to Rostow, it is possible to identify all societies, in their economic dimensions, as lying within one of the five categories: traditional society, preconditions for take-off, the take-off, the drive to maturity, and the age of high mass-consumption (Rostow, 1974: 4).

Rostow has argued with this proposition that all the communities would essentially go through the identical historical stages and reduced economic development to a single form. The purpose of his five-stage growth thesis, titled “A Non-Communist Manifesto” was to refute Marx’ thesis on evolution of communities and to demonstrate the opinion that the countries lagging behind in economic development race must remain in the traditional economic development model in order to reach the level of countries at a mass-consumption stage.

2.1.4. Assuming growth and economic development to be synonyms

The orthodox (traditional) approach, assuming the economic growth and economic development concepts as synonyms, has pointed out that economic development of a given country directly depends on the investment capacity of that country. In this way, the issue of development has been regarded solely as a technical and me-

chanical issue, while the social transformation process has been disregarded.

Every means of achieving growth and profit was considered to be legitimate in order to overcome the problem, which had been reduced to a technical level. Such approach has created exploitation, hunger, ethnical discrimination and terror (whether directly or indirectly). The vicious circle of African countries, the organized terror actions carried out in the US on September 11th and then in Turkey, and the terror acts in Iraq carried out by countries led by the US and the UK are all products of such mentality, and they are the events we should learn from.

2.2. *Neo-Marxist models*

The countries that gained their independence with the end of colonization after WWII began questioning free foreign trade policies that had been insisted on by the developed countries as the sole one responsible for their being underdeveloped and the reason for their many economic problems. Added to this, the petroleum crises that had been divulged in 1970s, confidence in free market system was damaged and industrialization and development strategies based on import-substitution under state warranty were put emphasized. We refer to approaches based on Marxism that have originality in essence and differ from Marxism by their models in the period during which serious criticism was given to capitalism and especially from 1960s onwards as neo-Marxism. Differing from the classical Marxist, neo-Marxists have placed underdeveloped countries in the center of their studies; unlike classical Marxists, they have not sympathized capitalist spread, they argued that underdeveloped countries had to refrain from capitalism in order to realize their economic development, and they have pointed out that all social classes and social layers, not just proletariat, had

to take a role in the revolution for salvation from capitalism.

Neo-Marxist economists deny the linear evolution theory that has been insisted on by traditional economists. According to neo-Marxists, being undeveloped and underdeveloped are two different concepts. A country is an undeveloped country before getting acquainted with capitalism and taking part in foreign trade. It has resources and hopes for economic development. However, the beginning of exploitation as a result of capitalist economic relationships with developed countries, formation of the dependency, transfer of technology subject to limited conditions, and lacking funds and resources required for economic development with transfer of economic surplus and resources to developed countries have resulted in a naturally underdeveloped state. According to Samir Amin, the spread of capitalism has resulted in an excessive conflict, deformation, and lack of articulation (Başkaya: 108). Due to the overly imbalanced distribution of capital and land, small manufacturers fail putting in practice the measures that improve the productivity, while owners of large capital and lands do not have to worry about increasing the productivity. In a word, productivity decreases and waste occurs due to capitalist system in underdeveloped countries. The long and short of it is that underdevelopedness is a peculiar socioeconomic structure that has occurred with integration of undeveloped countries into the world's capitalist system (Erdoğan, 2000: 154).

Upon diagnosing the issue of underdevelopedness, neo-Marxists have also addressed proposals to their solution. According to them, it is impossible for underdeveloped countries to do without breaking out the structure that is based on foreign capital and domestic investors, which cooperate with foreign capital, and without following domestic stable "national populist" po-

licies. And this is only possible by falling off from capitalism through a socialist revolution.

The countries that adopted this model had seen the difference between the capitalist world and themselves through the end of 1980s and, abandoning this model, they rapidly engaged in switching to the traditional model (capitalization).

The reasons for failure of neo-Marxist models are as follows:

- a) in this model, in which planning, administration and economic decisions are centralized, the Soviet Union is the prototype country. Having been the example for the other countries that adopted this model, the Soviet Union failed in concentrating the refining traditional heavy industries that require large amounts of capital and in shifting to customer-oriented information-centered industries with high added value (Kotler, Jatusripitak and Maesincee: 76);
- b) in this model, in which economic decisions are taken at higher levels of the hierarchic structure, production failed to adapt to changes in consumption and demands in a short time;
- c) the model has failed to encourage productivity increase of labor and innovations.

2.3. Assessment of traditional and neo-Marxist models

There are two opposite waves in historical perspective with regards to economic development that had been experienced in theory and practice: the first one is the free market or *laissez-faire* wave, which entered the world of theory in the United Kingdom and then in the United States between 1776 and 1885. The adaptation of this theory to real life took place between 1820 and 1900 in the United Kingdom and between 1890

and 1930 in the United States. As for the second wave, it is collectivism. A shift to collectivism at the theoretical level took place between 1883 and 1950 in the United Kingdom and between 1885 and 1970 in the United States (Friedman and D. Friedman, 2000). Adaptation of collectivism to real life took place between 1900 and 1978 in the United Kingdom and between 1930 and 1980 in the United States.

Advocates of the traditional economic development model attempted to prove the superiority of economic liberalism, starting from two different points: an economic reasoning that is based on a problem-free operation of market conditions, and an ideological reasoning that is said to be triggering creative energy of individuals and is therefore based on freedom of enterprise. Friedrich von Hayek has matured the idea of a problem-free operation of market conditions in terms of philosophy. Having modernized and reasoned the "invisible hand" thesis, Hayek argues that the market is the total of a certain amount of data, human mind and especially information and initiatives that goes beyond human mind (Gorz, 1995). Arguing that the situations where states take an active role in economics by owing property or by making arrangements on the sectors damage the economic development, resulting in economic disasters and paving the path for totalitarian regimes (Kotler, Jatusripitak and Maesincee, 1997), he has emphasized his confidence in market economy and intensely opposed state's intervention into economic activities. In short, the basic objective of globalization and neoliberalism (traditional models) advocates is to create an economic order in the world where there is no duty of shrunken states other than their primary duties and where private entrepreneurship has integrated into world economy in competitive conditions (Kazgan, 1993).

The advocates of this movement have gone so far as to claim that liberalism (*laissez-faire*) has attained an ultimate victory against totalitarian regimes as a result of what has happened in the Soviet Union and Eastern European countries through the end of 1980s, that economical and political liberalism has been globalized as an ultimate lifestyle, and that the end of the history has been reached in terms of the social system, because the humanity has created the best system suitable for its needs in its evolution process.

However, globalization has not affected all countries and regions to the same extent or in the same way. Indeed, it has resulted in a widening of the created assets and income gap between the industrialized countries and a handful of wealthier developing countries on the one hand, and the poorer developing countries on the other (Narula and Dunning, 2000).

There have been observed two globalization processes during the recent 150 years. Inbetween, the world witnessed the 1929 economic distress as well as two world wars. The second term began in 1960s and, having gained in intensity especially after 1980s, affected all countries. With the second globalization movement, there was no war on a global scale, but the developing countries, including Turkey, lost in 1990s their economic improvement trend attained before 1973 and began experiencing economic crises with short intervals. State interventions in order to overcome such distresses also proved unsuccessful, because the global neo-liberalism involves the weakening or the abandoning of governmental capacities of effective strategic economic planning (The Guardian, 2004). Also, in the developing countries especially, capital market liberalization, sequenced wrongly, done prematurely does not

lead to a faster economic growth, but does expose the countries to high levels of risk: it is risk without reward (Stiglitz, 2004).

Considering the developments in the world we can say that a combined package of global free markets and majoritarian democracy, inherent to globalisation, can itself lead to destruction and atrocity (Painter, 2003).

It can be easily seen that there are transformations in the heart of models and theories addressed so far. Traditional economists have given no alternative escape route to underdeveloped and developing countries which lag behind in the economical development path once leaped by today's developed countries, claiming that there is a single historical path in economic development, and that all the communities essentially go through the same historical stages. Due to insufficient amount of savings in developing countries, investments are not at desired levels. The required savings can only be attained with the help of developed countries. In addition, according to traditional theories, foreign trade has an effect that increases the wealth of all countries. Therefore, the developing countries must focus on their trade-economic relationships with developed countries in a free foreign trade context. In conclusion, socioeconomic transformation of developing countries can only be realized with the help of developed countries.

While developed countries are imposing on developing countries free foreign trade, today's developed countries have been made use of customs taxes, quotas, and subventions in order to build up their economies. Many developed countries, the US and Japan to name a few, are known to have realized their industrialization by means of an efficient state intervention (Şenses, 1996). It is not a coincidence that economic development has become more difficult since

developed countries have oppressed developing countries from the beginning of 1980s to adopt the policies and institutions which have been supposedly proven to be valid and efficient. We observe that in developing countries financial crises, economic instabilities income imbalances and poverty have increased over the last 20 years. Steps and changes made by developing countries in order to adapt to the dominant system of the world resemble a tunnel with no exit and are bound with risks. First of all, the stabilization recipes oppressed on developing countries by the IMF do not guarantee economic growth and development. Likewise, many countries, from Latin American countries to Turkey, have implemented the bitter medicine of IMF exactly, but they have become foreign debt dependant countries, let alone realizing targeted economic growth.

Neo-Marxists, on the other hand, have discussed that the capitalist system and its peculiar production process, distribution, bureaucratic and institutional structure should be fundamentally transformed. Attaining a problem-free economic development and taking such economic development to a lower limit are possible only in this way. Whereas such experience put into practice in the Soviet Union and Eastern European countries, far from creating a social economic development, has proven to create what Milovan Djilas* referred to as the New Class (masters' class and political officers).

We have discussed the general economic outlook of two differently developing countries so far, followed by the general framework of

development models and a short assessment. And now let us introduce our suggestions with regard to economic development, generally for developing countries and especially for transitional economies in Central and Eastern Europe.

3. Suggestions

There is no uniform recipe of solving the economic problems of countries in development and of their reaching wealth and richness. There may be more than one choice before a given country. The path to be followed by a given country may vary depending on its resources, national priorities, limitations, and surrounding conditions. Ideology and policy must be generated individually based on a case. The time has proven that uniform models assumed to have general validity stand no chance in succeeding. A glance over today's developed countries such as the UK, the US, Germany, Japan, North Korea, and Hong Kong will show us that they all have attained economic development by means of different paths and methods.

How does the future look? In fact, the tips on the future can be derived from the industrial revolution that took place in England in the 18th century and from globalization applications in 1980s spread to the world by the US and UK. We are evolving through a world where human needs are unlimited, where goods once considered as luxury are now listed among essentials due to ever changing technology and ever diversifying products, where a continuous progress is made in hierarchic needs through the endless upper steps, and where increased manufacturing has fallen behind demands and desires. With dogmas, religious institutions, religious functionaries, and fatalism being substituted by information, scientific researches, educational institutions, scientists, and rational behaviors, there

* Milovan Djilas was a member of Yugoslavian Communist Party, Politbureau and Central Committee, and also a minister of Tito's first government in 1945, General Secretary of Communist Party and its leading theorist.

is now a monotonous and uniform lifestyle dominant in the universe. Material features often shape such a monotonous lifestyle. In other words, in today's and future's world the religion element that has once played an important role is losing its efficiency. In this new order where the motive to win is emphasized, the actors struggle to achieve their goals with no regard to race, culture, ideology, religion, and country. Capital owners especially, with support from national and international institutions, are shaping the world in their favor. Their duty of developing countries today is not following up and imitating today's developing countries, implementing exactly the recipes given by developed countries. The duty is to realize a systematic methodology that is appropriate for the conditions and facts surrounding the developing countries. Such methodology, aside from analyzing the starting conditions, certain opportunities and weak and strong aspects of a given nation, is an assessment mechanism in determining the path with the highest chance of success in its economic development or economic replenishing process among all possible paths (Kotler, Jatusripitak and Maesincee, 1997).

Economic development is a continuous process. Is the state needed in this process? If the market can achieve a socially desirable allocation of resources, there should be no need for government to coercively intervene in economic activities. However, the market is not able to achieve optimality in all economic activities. Divergence of market equilibrium from the point of Marshallian net utility maximization or Pareto optimality is called a market failure (Hayami, 2001). Government activities are needed to correct this failure. Therefore the state must take a direct role in economic development process and prepare a strategic plan that addresses the targets and the ways such targets must be achieved. While preparing such

plan, opinions and propositions of all economic actors must be taken into consideration, because realizing the economic development process requires a harmonization among the opinions of centers of influence that intervene with the economy (Freyssinet, 1985). Yet, underdeveloped countries and developing countries have a double handicap in this issue. On the one hand, the plans of national centers of influence do not come to terms with the plans of dominant units that intervene into the economy. On the other hand, this requires the economic development plans of private sector to be in line with the national plan. However, the weak political and administrative structure in these countries, failure in attaining a unity among sectors and institutions hinder implementation of efficient plans and economic development.

Then, what kinds of benefits are there in plans to be prepared by the state? Let us begin answering this question by explaining the targets of an economic development plan.

The objectives that are commonly mentioned in medium-term development plans are (Sun, 1991: 149):

- 1) high growth rate in terms of GNP and per capita GNP;
- 2) high level of employment or low rate of unemployment;
- 3) stable general price level;
- 4) improvement in income distribution; and
- 5) improvement in the balance of international payments.

If the state plays a direct role in economics, it may generate a considerable positive effect in the economic development process by means of tools such as physical and social infrastructure, financial and monetary markets, investment policy and trade policy, and may facilitate achieving the targets listed above.

Moreover, the state may encourage growth and labor increase and maximize economic development by means of policies that would affect positively the working, consumption, saving, and investing habits of individuals.

Furthermore, considering the facts such as the lack of entrepreneurship in transitional economies, the lack of integration and harmony among the markets, and public's longer history than the private sector with regard to administration, the economic rationality of the active role of state in economy can be better understood.

Conclusion

In this study, we have examined two different models of economic development. When the ways followed by countries are regarded in their historical perspective, it is seen that the two models have many paths (Kotler, Jatusripitak and Maesincee, 1997). Especially the traditional model is not homogeneous, and therefore there are many paths in its implementation. But, in essence, they are all capitalist models based on free market economy. Both models have their advantages and disadvantages. As opportunities, resources, limitations and competitive conditions surrounding every country differ, there is no single best economic development model that will prove the best outcome at all times. Decision makers of every country are in position of choosing the most appropriate and realistic economic development path suitable to the conditions and positions of their country.

Today's Eastern European countries are dealing with a unique issue of transforming their economy, which was planned, from a central into a free market economy. In the light of his-

torical facts, the duty of developing countries and especially transitional economies must be choosing the most appropriate endogenous (national) economic development model instead of traditional methods that benefit the single part oppressed upon them.

The endogenous economic development model is a concept that requires an original economic development path suitable for the history and resources of each country, becoming dominant in their process; the active contribution of masses into economic development that is in the end a social transformation process, becoming the subject of the process; profit maximization to be substituted by income; labor to be superior to capital; private capital worries on increasing the profit to be substituted by worries over increasing the quality of life; and financial wealth becoming the primary objective as opposed to neo-classical economy approach (Başkaya, 1994). In other words, endogenous economic development is a model that requires a given country's economic development to be based on its power and capabilities, thus continuing its way without being affected much by external factors; and larger masses taking role in making decisions instead of a minority.

Having cast a glance over the past of the developed countries that shape the world's economy, we see that their earnings and savings are painfully attained. Colonist countries have, so to say, raced against each other and taken with them the natural resources and valuable goods of their colonies have gone so far trading the people in addition to such valuable goods. In other words, today's developed "civilized" countries did not attain capital savings by means of hard work, science or conservation. As Marx said, "*capital comes into the world soiled*

with mire from top to toe, and oozing blood from every pore". In fact, there is nothing new on the developed countries' front today, either. Their mission to "civilize" the world continues. Administrators of developing countries must develop visions, missions, policies and systems considering these historical facts. They must cooperate with economists and social scientists in order to succeed in these efforts so that es-

tablishing a connection between economic theories and market facts becomes successful.

The gap between the current and the desired situation of transitional economies forms the propelling power of economic development to act. We may asset that this act is a long-term process. In this process, through a transformation from what is in effect to what should in fact be in effect the economic development is realized.

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VERTINIMAS, KRITIKA IR ALTERNATYVŪS PLĖTROS MODELIAI IŠ ISTORINĖS PERSPEKTYVOS: TURKIJOS IR VENGRIJOS ATVEJIS

Levent GOKDEMİR

Santrauka

Žvelgdami į šiuolaikinį globalizuotą pasaulį iš istorinės perspektyvos, pastebėsime, jog besivystančios šalys yra kai kuriose srityse ribojamos vienos dominuojančios ekonominės ideologijos. Tradiciniai klasikinės ir neoklasikinės plėtros modeliai, pasiūlyti Adamo Smito, viena vertus, sukūrė turtingų ir laimingų žmonių mažumą ir, kita vertus, labai didelį skaičių žmonių, gyvenančių skurde.

Vis dėlto pagrindinis plėtros ekonomikos tikslas yra iširti būdus skurdiui eliminuoti. Tyrimo objektas – besivystančios šalys, kur egzistuoja pajamų paskirstymo nelygybė ir mažos pajamos. Siekta atsakyti į šiuos klausimus:

Ar skurdo besivystančiose šalyse eliminavimas yra utopija? Ar įmanoma įgyvendinti stabilią ir tvarią plėtrą? Jeigu tai įmanoma, ar gali būti išieitimi išsivysčiusių Vakarų šalių ekonomistų teiginys, kad „plėtros teorijos-modeliai priklauso nuo tradicinės ekonomikos“? Kokia buvo tikroji šios į Vakarų orientuotos plėtros politikos paskirtis? Kokią šie modeliai turėjo įtaką besivystančioms šalims ir kokios problemos buvo iš-

spręstos? Kokios yra Vakarų tradicinių modelių alternatyvos? Jeigu jie taikomi, kokių gaunama rezultatų? Ar bus matomi pokyčiai, susiję su plėtra? Kokia šių pokyčių įtaka išsivysčiusioms šalims? Ar išsivysčiusios šalys leistų praktiškai naudoti alternatyvius modelius?

Straipsnyje visų pirma pristatoma makroekonominė situacija ir plėtros problemos besivystančiose šalyse (Turkijoje ir Vengrijoje), pateikiant atitinkamus rodiklius. Kritiškai nagrinėjami tradiciniai plėtros modeliai, ir aiškinami alternatyvūs plėtros modeliai, padėsiantys išspręsti plėtros problemas besivystančiose šalyse, ypač pereinamosios ekonomikos Rytų Europos šalyse, apibūdinamas stabilios plėtros procesas šioms šalims. Savo ruožtu kaip ekonominis modelis, bus pasiūlyti valstybės kišimasis bei ekonomikos planavimas.

Pagrindinė šio straipsnio tema tradicinių plėtros modelių kritika ir besivystančių šalių alternatyvių plėtros modelių apibūdinimas.

Pagrindiniai žodžiai: besivystančios šalys, plėtros modeliai, pereinamosios ekonomikos šalys, Turkija ir Vengrija.

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