



## THE TROUBLE IN PUBLIC FINANCE: MORATORIUM IN THE DEMOCRATIC PARTY PERIOD (1950-1958)

### KAMU MALİYESİNDE FELAKET: DEMOKRAT PARTİ DÖNEMİNDE (1950-1958) MORATORYUM

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#### Abstract

On August 4, 1958, a moratorium was declared in the Republic of Türkiye. Before the emergence of this fiscal event, initially it was abandoned from the liberalization policies. Then, the Democratic Party had to adopt an interventionist policy. Hence, the investments were realized by the public sector rather than the private sector. While imports became more profitable, this circumstance caused the depletion of foreign exchange reserves. In addition, inflation increased. In other words, the prices of goods and services exhibited a quite high increase. The common trait of such hitches was their expenditure-orientation. The circumstances in question implied a budget deficit. On the other hand, it was resorted to borrowing in order to meet the budget deficit. However, as borrowing couldn't be used efficiently, the phenomenon of bankruptcy arose. And the process in question mainly arose due to compromises made on concepts such as national sovereignty and full independence acquired in the Treaty of Lausanne. In this study, the referred issues were examined, and some suggestions were offered to avoid such problems in the future.

**Keywords:** Borrowing, moratorium, Democratic Party, conversion, consolidation.

#### Öz

4 Ağustos 1958 tarihinde Türkiye'de moratoryum ilan edildi. Bu mali olay ortaya çıkmadan önce ilk olarak liberalizasyon politikalarından vazgeçildi. Sonrasında ise Demokrat Parti müdahalecilik politikasını benimsemek zorunda kaldı. Dolayısıyla yapılan yatırımlar da özel sektörden ziyade kamu sektörü tarafından gerçekleştirildi. İthalat yapmak daha karlı bir hale gelmekle birlikte, bu durum döviz rezervlerinin tükenmesine sebep oldu. Tüm bu hususlara ek olarak enflasyon yükseldi. Bir diğer ifadeyle mal ve hizmetlerin fiyatları oldukça yüksek bir artış gösterdi. Bu olumsuzlukların ortak özelliği harcama odaklı olmalarıydı. Söz konusu durum ise bir bütçe açığı anlamına gelmektedir. Bununla birlikte bütçe açığının kapatılması için borçlanma yoluna gidildi. Ancak yapılan borçlanma etkin bir biçimde kullanılmadığı için mali iflas olgusu ortaya çıktı. Söz konusu süreç ise temelde Lozan Antlaşması'nda elde edilen ulusal egemenlik ve tam bağımsızlık gibi kavramlardan taviz verilmesi nedeniyle ortaya çıkmıştır. Bu çalışmada da bahsi geçen hususlar incelenmiş ve gelecekte bu tip sorunlarla karşılaşmamak için bazı öneriler sunulmuştur.

**Anahtar Kelimeler:** Borçlanma, moratoryum, Demokrat Parti, konversiyon, konsolidasyon.

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## 1. Introduction

The moratorium is a well-known phenomenon in the history of the Republic of Türkiye's economy. In fact, the first encounter with the phenomenon of moratorium took place during the Ottoman Empire in 1876. On April 1876, the Ottoman Empire had to declare a moratorium through the cessation of the payment of all debts, and thus, the empire's bankruptcy was fully recognized (Özdemir, 2017: 97). The Ottoman Empire's borrowings became a domain of investments, earnings, speculations, commissions, and bribery throughout Europe. Following the Ottoman Empire's initial borrowing during the Crimean War, it continued to borrow money from European banks at each time of financial difficulty. These debts were acquired in large quantities under suboptimal conditions and at much higher interest rates than those of other countries. In addition, the Ottoman Empire's notes payable were put up for sale on stock exchanges in London, Paris, Vienna, and Frankfurt, to name a few. Most of these funds were used for current expenses, the construction of palaces, the formation of a large navy, and the payment of the bureaucrats' salaries. In 1873, when the stock exchange crisis affected the European and American markets, it became impossible for the Ottoman Empire to find new funds from the European money markets. The Empire borrowed from foreign sources 15 times between 1854 and 1874. This process caused the Ottoman Empire to be unable to pay its debts over a period of twenty-five years (Tabakoğlu, 2018: 311-312).

Upon closer examination, the Ottoman Empire used such borrowings in inefficient places. In other words, there was an inefficient allocation of resources. A similar circumstance was also experienced in the 1958 moratorium. This is why the phrase "*Democratic Party period*" was used in the study. The reason for the examination of the period from 1950 to 1958 was that the Democratic Party came to power in 1950 and a moratorium was declared in 1958. In this context, the concepts of borrowing and moratorium were primarily considered theoretically. In the following section, the economic and financial incidents of the period were discussed.

In the evaluation section, the process leading to the moratorium was analyzed along with its causes and consequences within the scope of the economic and financial findings of the period. In the conclusion section, important elements of the economic and financial incidents of the period were highlighted, and the study made various suggestions for the avoidance of a similar case in the future.

## 2. Methodology

The incidents that take place in the human life are one-time incidents that take place within their historical, social, and economic circumstances. For this reason, in the social sciences, it is necessary to address incidents within the context of their individuality and implications. In human life, each phenomenon is surrounded by various frames of implications within its historical context. The frames of implications are also generated under each society's cultural individuality and historical uniqueness. Of course, these implications are possible because of the presence of values. Therefore, as far as human beings are concerned, it is not possible to speak of actions that are free from values. Accordingly, the researches carried out in any society necessarily make the recognition of society's semantic world, namely culture, necessary. In this context, there is meaning and understanding wherever there is a person, and interpretation wherever there is understanding (Fırıncioğulları, 2016:41). In social research, interpretation is related to an explanation of what the researcher has learned and his perspective, or the shaping of what he has gained from previous research experiences. Thus, the points that qualitative research attaches importance to are in line with hermeneutics. These can be listed as being related to the subject, the description and interpretation of the subject, the investigation of the subject in its natural environment, and the understanding of the generalization process in

drawing conclusions. Pure positivist (quantitative) notions were regarded skeptically in the 21<sup>st</sup> century. The reason was that quantitative research adopts an approach that tests, measures, or experiments with the subject instead of understanding them. Qualitative research, also called interpretology, brings forward a theoretical framework for an interpretative understanding or meaning that draws attention to the main purpose (Altıntaş Namlı and Erdem, 2021: 42). Here, in this study, instead of an approach that measures a person, the phenomenon of understanding a person was adopted, and the method of interpretation was used for this purpose. Thus, uncovering human behavior in the behaviors of voters and members of the ruling and opposition parties will appear as an easier and more understandable option for explaining the trouble of the moratorium. In this study, the reasons for the moratorium in 1958 will be explained from general to specific and the interpretation method will be used for this purpose. This interpretation will be supported by the data contained in the scientific literature on the history of economics.

### **3. Borrowing: Concept and Content**

Although taxes are considered the main sources of income for a state, borrowing from domestic and foreign sources may arise when the state's expenses cannot be financed (Tuncer, 1971: 136-137). Borrowing is a financial instrument that can be performed in mundane and extraordinary incidents (Tuncer, 1971: 137). In other words, in cases where public revenues cannot cover expenses or where large expenditures arising from exceptional services are necessary and compulsory, states prefer to borrow (Sayar, 1961: 78). Borrowing, on the one hand, provides an income to the state, and on the other hand, it increases the liabilities side of the balance sheet, and which one outweighs the other depends on the way the borrowing is used (Dikmen, 1973: 32). In fact, if the borrowings are used for daily routine, future generations would be obliged to pay the principal and interest of the borrowing over unfair means, and in the case of nonpayment of the borrowing, the state becomes weak and may even be dragged into bankruptcy (Aksoy, 1991: 169). In terms of reasons for the selection of borrowing from two financial instruments, such as borrowing and taxation, it is possible to explain it as follows (Uluatam, 2012: 468):

- Since it may take a long time to make tax laws or as the then current tax burden may be quite heavy, the need for short-term income may be covered through borrowing because a new tax law that would be made may create economic and political problems, and in the future, such debts may be covered by tax revenues.
- Borrowing can be an effective financial instrument because it may not be possible to compensate for such an imbalance with taxes, which are domestic sources, if a country's expenditure is exceeding its production.
- Taxes may affect the decisions of consumption and saving as well as investment trends, along with individuals' desire to work. However, since borrowing may not have such an effect, it may be preferred over taxation.

Therefore, if states want to make a choice between borrowing and taxation, and taxation does not create efficiency, borrowing emerges as an effective source of income.

The types of borrowing can be considered according to whether they involve national currency or not and their duration (Öztürk, 2013: 49):

- If the state borrows money in its own country in its national currency, it is considered domestic borrowing, and foreign borrowing is the borrowing made in foreign currency both inside and outside the country (Öztürk, 2013: 49). The Department of the Treasury's domestic borrowings in foreign currency do not imply foreign debt, and such borrowings are defined as domestic debt (Karataş, 2019: 83).

- Borrowings with a maturity of up to one year are recognized as short-term liabilities; borrowings with a maturity of 1-5 years are recognized as medium-term liabilities; and borrowings with a maturity of more than 5 years are recognized as long-term liabilities (Öztürk, 2013: 49). According to another approach, borrowings with a maturity of up to 2 years are classified as short-term liabilities; those with a maturity of 2-10 years are classified as medium-term liabilities; and those with a maturity of more than 10 years are classified as long-term liabilities (Bülbül et al., 2006: 109). Although the usage area is more flexible and the costs are lower as the procedures of short-term liabilities are less, the usage flexibility of long-term liabilities is more limited and their maturity is longer as such liabilities are more costly (Yaşa Atılğan, 2016: 59).

If the borrowings made may be reimbursed, the actual circumstances would not cause any disruption, and the financial situation's sustainability through tax revenues may be ensured. However, when the threat of insolvency arises, it would be necessary to speak of concepts such as consolidation, conversion, monetization, refusal of debt, and moratorium. Consolidation is defined as combining the debts that are due or whose maturity is shortened and replacing them with long-term debts (Erdem, 2009: 119). Consolidation is applied if there is not adequate money in the treasury to pay the debts or if the economic conditions are not suitable for paying the debts (Erdem, 2009: 120).

The process of replacing high-interest debts with low-interest debts is called conversion, and it is performed in order to alleviate the debt burden. In conversion, the principal and maturity remain the same, and only the interest rate changes. It is performed at the request of reducing the debt burden (Tosunoğlu, 2019: 118).

In monetization, which means that government debts are paid by the money printed by the central bank, the central bank covers the indebtedness by printing money. The government's borrowing from the central bank through a short-term advance also causes monetization. In such a circumstance, it is inconvenient to resort to monetization in inflationary economies, as price stability will be disrupted by the increase in money supply and purchasing power (Edizdoğan et al., 2011: 534).

Through payment, the debt becomes discharged, and therefore, the debt stock decreases. While it may be specified that the debt payable became discharged by its payment with tax revenues, it may not be specified that the debt payable became discharged if it had been paid with another debt (Altay, 2015: 211). In a circumstance where the debts cannot be paid, it is necessary to speak of the refusal of the public debt and the moratorium.

Refusal of public debt, which may occur in cases of both domestic and foreign debts, means the state's declaration of the elimination of some or all of its debts through an extraordinary unilateral decision. If such a route is adopted for domestic debts, the confidence of public credit would be lost, and it would be very difficult for the state to borrow in the future. Since it would be subject to various international interventions, the refusal of foreign debt is not so possible (Yılmaz, 2016: 284-285).

The moratorium can be explained as follows (Erdem et al., 2006: 235). States may have some difficulty paying the principal and interest on foreign debts. In particular, when the debt is denominated in foreign currency, the difficulties in question become more apparent. This condition is called a default. The states that want to get over such a circumstance may declare a moratorium. A state that declares a moratorium ceases the reimbursement of the debt but accepts the terms of the debt and may not terminate the debt. As a result, countries are involved in discussions, and their opinions on a more appropriate payment plan are exchanged.

The moratorium declared in the Republic of Türkiye on August 4, 1958, is the most typical example of unfavorable borrowing conditions. However, the moratorium was not immediately declared. Therefore, it is necessary to consider the causes that led to the moratorium.

#### 4. General Economic and Financial Outlook during the Period of the Democratic Party (DP)

The first domestic and foreign borrowings made after the establishment of the Republic of Türkiye were as follows (Devrim, 2002: 306):

- The first foreign borrowing was made in 1927 to perform the nationalization of the Anatolian Railway and the Port of Haydarpaşa.
- The first consolidated foreign borrowing was a 10 million-dollar debt received in exchange for granting a 25-year match monopoly to America in 1930.
- The construction of the Fevzipaşa-Diyarbakır Railway Line was performed by the first foreign debt.

From 1948 to 1952, an economic policy adopted tried to develop the private sector in the Republic of Türkiye as well as in the whole world (Çelebi, 2001: 24). In 1950, although liberalization began through the DP's election, the free entrance of foreign goods, most of which were luxury goods, into Turkey disrupted the balance of foreign trade and caused the initiation of foreign borrowings (Erginay, 2010: 324).

In the liberalization system, importers deposited the amounts of goods purchased from abroad in the central bank in TRY, and it was the responsibility of the government to transfer such amounts to the relevant creditors in foreign currency, which meant a guarantee for foreign companies. Therefore, a significant foreign trade deficit has begun to form. At the first stage, the Republic of Türkiye, which used its gold and foreign exchange reserves, had difficulty transferring its debts abroad, and thus, domestic importers considered that the imports would be restricted, so they deferred their imports causing an increase in the foreign trade deficit (Engin, 2014: 228).

During that period, the agricultural sector was supported the most (Tonus, 2019: 36). In fact, as seen in Tables 1 and 2, the number of agricultural machinery and the amount of the loans of Ziraat Bank increased during the period of the DP as compared with the previous years.

**Table 1.** The Number of Agricultural Machinery by Year (1948-1958)

Type of Machine	1948	1952	1954	1956	1958
Tractor	1,756	31,415	37,743	43,727	42,527
Tractor Plough	1,427	30,766	26,140	30,763	30,973
Tooth Harrow	680	9,623	14,017	17,357	18,178
Cultivator	401	4,028	5,076	6,502	5,248
Grain Drill	162	4,406	6,872	7,839	8,169
Cotton Seed Sowing Machine	2,570	13,909	8,437	10,530	9,359
Reaping Machine	14,384	21,122	19,782	21,176	24,918
Harvester	268	3,222	4,706	6,025	6,592
Thresher	430	959	1,219	1,375	2,180
Lawn Mower	612	1,553	3,159	3,840	3,600
Trailer	140	12,982	18,088	22,885	24,919

**Source:** Özçelik, 2015: 230.

**Table 2.** Amount of the Agricultural Loans of Ziraat Bank in the Republic of Türkiye

Year	Loan Amount (Million TRY)
1950	412
1951	646
1952	1,067
1953	1,213
1954	1,497
1955	1,558
1956	1,888
1957	2,108
1958	2,161

**Source:** Özçelik, 2015: 231.

The number of some agricultural machinery increased from 1956 to 1958, while others decreased. However, compared to 1948, the referred decreases were less than the referred increases. Agricultural loans issued by Ziraat Bank increased by approximately five times from 1950 to 1958.

Nevertheless, the agricultural machinery and vehicles imported by the borrowings made after 1950 did not cause a significant and continuous increase in agricultural productivity (Yaşa, 1978: 41).

In 1954, the *Act on the Promotion of Foreign Capital* was adopted. The law in question anticipated the following (Zarakolu, 1954: 597):

- Saving foreign currency by reducing the import of certain goods and increasing the availability of foreign currency by increasing exports,
- Making the settlement of technical knowledge possible in the country along with foreign capital,
- Raising the national income and therefore, the life standard of the people by increasing the number of new production sites.

However, the surplus exports and foreign economic aid acquired during the period of war were wasted under the name of a liberal economy, and excessive demand was directed toward imported goods, and thus, existing reserves were depleted in 1954. In addition, the general level of prices increased rapidly. The extraordinary profitability of trade in imported goods prevented private sector investments from shifting to the production of industrial goods (Özer, 1980a: 234-235).

Such problems were also evident in the average annual growth rate of a number of economic indicators, as shown in Table 3.

**Table 3.** The Rate of Increase of Some Economic Indicators (%) (1950-1958)

	Population	GNP	Agriculture	Industry	General Price Level
<b>1950-1953</b>	2.78	11.3	12.2	10.5	4.0
<b>1954-1958</b>	2.85	4.1	3.0	9.3	13.3

**Source:** Kazgan, 1999: 110.

Table 3 shows that the growth rate of the population increased during the period of the DP, while the GNP and agricultural and industrial growth rates decreased. However, the overall rate of the price level increased, which indicated the phenomenon of inflation.

**Table 4.** The Investment and Domestic Savings in GNP (%)

	Investment	Domestic Savings	Resource Balance
<b>1950-1953</b>	11.3	8.8	-2.5
<b>1953-1958</b>	13.9	12.2	-1.7

**Source:** Kazgan, 1999: 110.

The necessity of a large amount of capital by the industry and the lack of qualified workers and managers prevented private investments; however, the public sector invested heavily in highways and waterworks (Özer, 1980a: 235a). Therefore, the low pace of investment growth can be explained not by the investments of the private sector but by the investments of the public sector.

The phenomenon of inflation and the fact that some branches of trade were profitable led to an increase in savings (Özer, 1980a: 235a). This, in turn, explains the growth in domestic savings.

**Table 5.** The Share of General Budget and Tax Revenues in GNP at Current Prices (%)

Year	General Budget Revenue/GNP	Tax Revenue/GNP
1950	16.2	11.9
1951	15.6	10.1
1952	18.6	11.0
1953	16.1	10.9
1954	16.7	12.1
1955	18.3	11.7
1956	16.5	11.7
1957	14.8	10.3
1958	15.1	10.1

**Source:** Manisalı, 1980: 95.

During this period, not much was done to increase tax revenues. And the tax system did not change, and state revenues were not able to follow the GNP. In addition, since taxation efforts remained low, the budget deficit continued and gradually increased, and it became mandatory to resort to the central bank's resources more often for financing state-owned enterprises (Manisalı, 1980: 95). The development of domestic debts is shown in Table 6.

**Table 6.** The Development of Domestic Debts (Consolidated Government Debts + Floating State Debts) in the Period 1950-1958

Year	Domestic Debts (Consolidated Government Debts + Floating State Debts)
1950	1,767.4 (741.9+1,025.5)
1951	1,992.2 (713.9+1,278.3)
1952	2,054.3 (744.2+1,310.1)
1953	2,291.8 (710.3+1,581.5)
1954	2,436.3 (799.3+1,637)
1955	2,513 (915.4+1,597.6)
1956	3,392.5 (1,497.7+1,894.8)
1957	3,876.9 (1,651.6+2,225.3)
1958	4,284.7 (1,627.5+2,657.2)

**Source:** Arsan, 1961: 78; Yaşa Atılğan, 2018: 194.

Since 1948, the largest segment of the overall floating state debts has arisen from the floating debts of economic state organizations. As of February 1952, the floating debts of economic state organizations exceeded the sum of the general budget, additional budget debts, and other floating debts, accounting for more than fifty percent of all floating debts. In 1953, 251.2 million TRY of the debt of 1,581.5 million TRY belonged to the general budget, 285.4 million TRY belonged to the additional budget debts, 920 million TRY belonged to the economic state organizations, and 124.9 million TRY belonged to the other institutions. As seen, the floating debts belonging to economic state organizations that exceed 1 billion pounds in the overall floating debts in subsequent years are high (Arsan, 1961: 78-79).

During this period, the reason for domestic borrowing was budget deficits. The borrowings were made to cover such deficits. And economic state organizations, whose number was rapidly increasing, created a new type of domestic debt through the issuance of debt securities with Treasury guarantees. By Act with no 5864 of January 25, 1952, an amount of 60 million TRY was used to cover the budget deficit in 1951, and as per the act, the interest rate, bonus amount, issue price, and redemption period were determined by the Council of Ministers. Other conditions were approved by the Ministry of Finance. On the basis of the law of May 20, 1955, the borrowings of the year 1955 were made on the basis of the authorization to conclude borrowing contracts up to 60 million TRY. Borrowings made on the basis of Act with no 6764 were used to cover the budget deficit in 1955, and borrowing in the amount of 75 million TRY was also made on the basis of Act with no 6804 when the borrowing limit was set at 300 million TRY (Eker et al., 2005: 296-297).

While these developments took place in terms of domestic borrowings, some developments also took place in terms of foreign borrowings. Foreign borrowings made during the period of the DP are as follows (İnce, 2001: 194-197):

- A total of 162.5 million USD from the United States, including 26.6 million USD in 1955, 15.1 million USD in 1956, 68.8 million USD in 1957, and 52 million USD in 1958,



- Loans from international institutions and organizations grew from 10 million USD in 1952 to 20 million USD in 1953, to 13.5 million USD in 1957, and to 25 million USD in 1958, for a total of 68.5 million USD,
- In 1957 and 1959, a loan of 3.3 million pounds was borrowed as compensation for four informants. In 1957, a certain amount of debt was also borrowed from Soviet Russia for the establishment of the Çayırova Glass Factory.

The development of foreign debts in the period of the DP is given in Table-7.

**Table 7.** Foreign Debts for the Period 1950-1958

Year	\$ Denominated	TRY Denominated
1950	121.577.976	348.482.097
1951	51.739.828	146.175.364
1953	35.961.202	101.597.587
1954	141.113.040	398.667.525
1955	23.493.016	66.372.468
1956	2.479.016	7.006.296
1957	47.853.921	135.196.058
1958	116.295.592	790.806.685

**Source:** Işık et al., 2005: 26.

During this period, the public sector's overdraft import debt and arrearages gained great importance among the foreign debts. Public sector overdraft import debt consists of commercial loans used by the main economic state organizations for certain projects, and such debts received for investment projects have an important place among foreign debts (Yılmaz, n.d.: 116). While the government did not officially recognize that it had ceased the transfers for goods until May 1953, the importers who tracked this circumstance further deferred their orders for goods. Therefore, the foreign debts of the private sector, which deposited the amounts of the imported goods in the central bank in TRY, accumulated, and the foreign exporters couldn't receive the amounts of the goods they had sold. These accumulated and delayed debts are called arrearages. Eventually, in 1954, Turkish importers did not have the opportunity to bring goods from foreign countries until the perfection of the foreign exchange transfer mechanism (Yaşa, 1978: 42).

In the period under consideration, the principal of arrearages was 2 billion 940 million dollars, and the amount of interest was 449 million dollars (İnce, 2001: 201). Although some of these debts were paid, no definite solution for the payments was found during the referred period (Yaşa, 149). The reason for this was that the arrearages became unpayable following consolidation with the state debts (Yılmaz, n.d.: 116). However, the last installment of the debts in question was paid in 1971, and the account was closed (İnce, 2001: 201).

During this period, the inclusion of foreign borrowings at a level that would force emission limits damaged principles such as external reputation and financial wealth, and along with the increasing difficulties in terms of foreign payments, inflation, and uncertainty, the DP had to make the devaluation that it had postponed in 1954 and 1956 at a higher level in 1958 (Coşar, 2005: 52). As a result, due to free imports, currency bottlenecks, and unrestrained inflation, the country was dragged into a moratorium in 1958, and the borrowings and economic

depression led to the introduction of a stabilization program on August 4, 1958 (Çelen, 2020: 10). By the end of the referred moratorium, it was reached to an agreement in Paris with a payment plan that would continue until 1971 (Erdem et al., 2012: 281-282).

##### **5. Evaluation of Borrowing and Moratorium Cases within the Scope of General Economic and Financial Findings of the DP Period: From Success in Lausanne to Failure in Public Finance**

The first foreign borrowing during the Ottoman Empire was made by Sultan Abdulmejid in 1854 to finance the Crimean War. The amount was 3.3 Ottoman liras. When the Ottoman Empire, which was constantly in debt after the referred borrowing, became insolvent, the Western lending countries established the Ottoman Public Debt Administration (Düyun-u Umumiye) in 1881, under the guidance of their representatives, in order to collect these debts. Thus, the Ottoman Empire handed over its financial management to others. After the collapse of the Ottoman Empire, these debts were divided under the Treaty of Lausanne among the states constituting the Empire as per their relevance. According to the Treaty of Lausanne, 105,553,623 Ottoman liras of the total debt of 161,603,833 Ottoman liras, that is, 62% of the pre-1912 debts and 77% of the post-1912 debts, were left to the Republic of Türkiye. In 1928, an assembly for debts convened in Paris to determine the payment schedule for the debts. As a result of these meetings, the Paris Convention was signed. The sum of the Ottoman Empire's debts that would be transferred to the Republic of Türkiye was re-determined as 107,528,461 Ottoman liras, including interest. In addition, the end of the payment schedule was determined as the year 1955 (Eğilmez, 2011).

Although 100 years have passed since the conclusion of the Treaty of Lausanne, the imperialist goals have not changed for the geography of the Middle East, and the treaty concluded in 1923 caused the goal of dividing the region into smaller states to be postponed for a long time. Even if the sessions did not completely proceed in the direction desired by the Republic of Türkiye, it was still a very effective treaty in this sense. Moreover, since the issues of borders, islands, and straits were resolved in accordance with Turkey's demands, political and diplomatic success was achieved through the treaty, and the Republic of Türkiye has been recognized and legitimized by other states. Although the issue of debts was interpreted as a failure by the examination of the figures, it was important in terms of the end of the war. Decision-makers probably had to do a profit and loss analysis and accept the proposed installments. Considering the inability to reach an agreement on the articles of the treaty and the losses that may be incurred in the event of the continuation of the war, the approval of the unfair distribution of debts was probably a reflection of the circumstances that were forced (Aşçı, 2016: 1656-1657). However, after the expiration of the free trade obligation stipulated in the Treaty of Lausanne in 1929, Turkey resorted to the pursuit of import restrictions and a statist economic policy. This, in turn, was followed by the import substitution policy, the establishment of SOEs (state-owned enterprises), industrial plans (i.e., planned economic development model), and legislation regarding the protection of the value of the Turkish Currency. In addition, the Republic of Türkiye, by asserting the environment created by the 1929 crisis, demanded the relief of Ottoman debts. In 1930, assembly meetings began following the Republic of Türkiye's application, and the amount of the debts, the Republic of Türkiye's demands for discount, and the method of reimbursement were discussed again. As a result of the meetings that lasted for three years, the amount of the Ottoman Empire's debts that the Republic of Türkiye had to reimburse was reduced to 8,578,343 Ottoman liras by the Paris Agreement signed in 1933. Thus, the Ottoman Empire's debts that the Republic of Türkiye would reimburse were mitigated by eighty percent. This was undoubtedly a great diplomatic achievement (Eğilmez, 2011). In addition to all these, the implications of the Treaty of

Lausanne for the Republic of Türkiye and the Turkish nation and the consequences of it may be explained as follows (Kodaman, 1989: 9-10):

- The Treaty of Lausanne is an important and serious treaty signed in favor of the Turkish community at the beginning of the 19<sup>th</sup> century. The Republic of Türkiye participated in the peace negotiations as an actually victorious and legally equal party and achieved the possible gains.
- The Treaty of Lausanne legally and actually abolished the Treaty of Sevres.
- The colonial situation that Turkish society faced during the Ottoman Empire reached an end with the Treaty of Lausanne.
- The political, economic, financial, military, and cultural independence of Turkish society was accepted by the entente states.
- By the Treaty of Lausanne, the Republic of Türkiye's unitary and national statuses were recognized.
- The Treaty of Lausanne granted the Republic of Türkiye the right and initiative to resolve issues such as Western Thrace, Mosul, the islands, Cyprus, Hatay, Iskenderun, and the straits. As a matter of fact, the issues of the straits, Hatay, and Cyprus could be resolved in favor of the Republic of Türkiye with the Montreux Convention of 1936.

Despite all these positive results, the Treaty of Lausanne was not in demand by the upper echelons of the state during the DP period. Neither the president nor the prime minister issued any messages regarding the Treaty of Lausanne on July 24. However, the proclamation of the second constitution, Hatay's annexation to the motherland, the anniversary of the elimination of press censorship, and so on were celebrated both during the CHP and DP periods. In fact, the DP was also not thinking differently than the CHP about the Treaty of Lausanne. However, the DP abstained from the Treaty of Lausanne on the grounds that Atatürk had remained in the background and İsmet İnönü had come to the fore with the Treaty of Lausanne (Gülen, 2013: 98). In other words, the DP's hostility against İsmet İnönü caused the gains acquired by the Treaty of Lausanne to be lost through concessions.

When the borrowings made are used for efficient and productive investments, it creates an ease in the payment of their interests and principals; otherwise, economic difficulties arise regarding the payment of the debts (Özer, 1980b: 140).

The main factor leading to controls and protectionism in the foreign trade regime was the fact that the free trade regime was leading to constant and ever-growing foreign deficits and difficulties encountered in the identification of foreign aid and loans. The solution to these problems was not through protectionist policies but by maintaining the form of integration that was established with the world economy, and it became effective after 1954, particularly through the IMF. Later, the stabilization policy measures, which were known as the "standard IMF prescription", were kept on the agenda by the foreign delegations visiting the Republic of Türkiye between 1954 and 1958 as the necessary conditions for the uninterrupted flow of foreign aid. However, the DP government resisted the indoctrination of the IMF for a long time, and instead of adopting a policy of devaluation, deflationary measures, and liberalization-based stabilization in foreign trade, it re-enacted the National Protection Act. Thus, the DP opted for monitoring the price and market controls and insisted on expansionary and inflationary policies driven by import substitution investments, on the one hand, and populist peasant-oriented policies, on the other hand (Boratav, 2019: 122-123).

Although there was a tendency for liberalization during the DP period, the use of borrowings made as a result of this liberalization for the electorate had negative economic and financial consequences. However, although the consequences were negative, the borrowings

from the IMF also implied a source. Even if the borrowing in question was a source, the IMF also held the economic administration, which was another aspect of the circumstance. The DP remained between the need for borrowing and the allocation of the economic and financial administration to an international organization. On the other hand, the DP used its choice in favor of populist policies and began to exhibit inflationary behavior. This undoubtedly increased the overall level of prices, and therefore, the prices of goods and services increased. In fact, the decrease in the GNP growth rate and the corresponding increase in the population growth rate should also be evaluated in this sense. In this context, borrowing can lead to a moratorium if it is used for populist purposes.

During the DP period, it was applied for 58 million TRY in 1955, for 50 million TRY by the Act with no 6764, and for 300 million TRY by the Act with no 6804, and DP issued shares with a treasury guarantee in the field of domestic borrowing. In other words, this instrument, which has existed since the immemorial period, was used to close the deficits of the state-owned enterprises, and eliminate capital shortages, which led to the increase of public debt to an unprecedented level (Balıkçioğlu, 2019: 25-26). In fact, the phenomena underlying the borrowings and the resulting moratorium were capital deficits and a lack of capital. The discrepancy observed here can be addressed in two ways. As the general understanding is that liberal policy biased governments do not give state-owned enterprises much space in the economy, one aspect of the circumstance is related to the fact that the DP, a liberal pro-policy government, allowed the activities of state-owned enterprises to sufficiently reveal the deficits of state-owned enterprises. The other aspect of the circumstance is related to the extent of the performance of the audits and the measures taken, along with allowing the activities of the state-owned enterprises. Since there were no audits or measures, interventionism was superior to auditing during the DP period. The lack of capital was another negative circumstance. Although it was desired to encourage foreign capital for this purpose, success couldn't be achieved in this sense. There may be an opinion that the failure in question was related to the tolerance of state-owned enterprises. However, permitting the activity of state-owned enterprises under a lack of capital and the constant loss of state-owned enterprises pushed DP into a paradox, which actually explains the dilemma of the moratorium to some extent. Therefore, it may be specified that the high impact of domestic borrowings on public debts was a factor on the way to the moratorium. In other words, one of the reasons for the 1958 moratorium was the lack of state-owned enterprises and capital.

During that period, it was heavily resorted to international financing, and the economic and financial structure based on foreign debts and donations enabled investment moves. Although there was a positive transfer source as the loans and donations obtained exceeded the reimbursements, the failure to take measures for increasing the real foreign exchange revenues, the inconsistencies in debt management, and the inability to acquire tax revenues for covering the debts led to undesirable economic consequences at the end of the period (Sugözü, 2010: 227).

Considering the developments related to foreign borrowings, it is possible to suggest that the underlying causes were the inability to increase real foreign exchange revenues and the inconsistencies in debt management. Increasing real foreign exchange revenues is possible through exporting the products manufactured domestically. However, considering the general characteristics of the period, there is no doubt that private sector investments did not shift to industrial investments, and exports did not reach the desired level due to a lack of domestic production. In this context, it is possible to state that one of the main factors in the moratorium was the lack of production and as a consequence, the lack of foreign exchange revenues. In addition, it is possible to include the poor debt management of the DP management in such

problems. However, the lack of foreign exchange revenues at the desired level was also a result of poor economic and financial management.

Economic instability emerged due to intensive foreign borrowings during the DP period and attempts to reimburse the debt with debt and adherence to international financial institutions put the country's economic future in trouble (Evsile, 2018: 74). As a result of the stabilization measures put in place by the moratorium in 1958, import customs tariffs and quantity restrictions were controlled (Takım, 2012: 183). However, perhaps the most important one among these measures was increasing the dollar up to 9 TRY; that is, the occurrence of a devaluation of 320% (Dönek, 1995: 175). In fact, the growth rate of the industrial sector slowed down following 1955, the share of the public sector in the economy increased, the projects could not be financed with sound resources, and the Republic of Türkiye found itself in a complicated economic condition (Karluk, 2009: 221). Therefore, the imbalance between domestic and foreign borrowings and liberalism and statism dragged the Republic of Türkiye towards a moratorium and caused a traumatic economic and financial collapse in this regard.

## 6. Conclusion

The Ottoman State experienced continuous political losses from the Treaty of Karlofça signed in 1699 until the 20th century. There are many reasons for these political losses. However, mainly geographical discoveries and the Renaissance and reform movements caused the Ottoman State to suffer political losses. These political losses have brought economic losses with them. Economic losses, on the other hand, caused the Ottoman State, which was initially rich, to become poorer over time. The phenomenon of impoverishment caused the enriching imperialist countries to exploit the Ottoman State. By the 20th century, the Ottoman empire had lost its financial, economic, and political sovereignty. The Treaty of Sevres was a formalized version of this situation. However, when the Turkish War of Independence was successfully concluded, the Republic of Turkey was established, and many advantages were gained with the Lausanne Peace Treaty.

Before the declaration of the moratorium by the DP, it had actually built the road to the moratorium itself through its approach to the achievements of the Treaty of Lausanne. Although the Turkish War of Independence was successful, the issues of political, economic, and cultural independence were still at the center of the problem. In order to solve these problems, the Turkish delegation, especially İsmet İnönü, exhibited a significant performance at the conference held in Lausanne. As a result, the Republic of Türkiye greatly solved its problems. Moreover, while these problems were being solved, a significant struggle was carried out with an imperialist economic mindset. Although it initially seemed that the debts remaining from the Ottoman Empire had not been resolved, other independences were achieved by the first installment of such debts, and then almost all the debts were reimbursed. During that process, the Republic of Türkiye increased its revenues by following a statist policy and therefore, managed to create new resources for the investments to be made. Similar policies were also followed after Mustafa Kemal Atatürk. Even a significant incident that would affect the economy, such as the World War II, was successfully avoided economically through the taxes collected during this period. By the time of the DP period, the state treasury was ready for a government to make productive investments. This was a very valuable acquisition. As a recently established state, it was fighting against economic imperialism. However, during the DP period, concessions gradually began to be made based on such achievements. In other words, the Turkish economy reached the beginning of the end.

Considering the years 1950-1958, when the DP was in power, it can be observed that liberal trends were quite intense, especially in the early periods. However, the fact that these trends lacked control caused the preference for a liberal understanding to be costly for the

country's economy. Resorting to more statist policies to eliminate such costs increased them even more rather than decreasing them because, although adaptation to a free-market economy was the right decision, the economic and financial management lacked supervision, which implied a crisis that lacked foresight. The facts that state-owned enterprises constantly incur losses and lack capital, that the private sector does not invest in industry as it finds imports more profitable, and that the public sector's share in the economy is gradually increasing with inefficient investments and inflationist tendencies all emerge as very influential factors in the way to a moratorium. In particular, the devaluation at the level of 320% occurred as a negative consequence of the measures taken following the moratorium. It is worth nothing that domestic savings were high during this period. As domestic savings were high, the Turkish economy could overcome this circumstance more easily in the following years. If experiences acquired in the past are considered facts shedding light on the future, such economic and financial problems will not arise again. Therefore, in order to shed light on the future and avoid such circumstances, the following considerations should be taken into account:

- Although a liberal understanding of economics is the rule, the economy should not be deprived of supervision.
- Domestic and foreign borrowings should be channeled to efficient investments. The borrowings obtained should not be wasted for numerous reasons. This may be achieved through a legitimate liberal economic understanding.
- Transferring the economy to international financial institutions undermines a country's independence and thereby, its prestige. Nevertheless, an autonomous state structure is also a utopia, meaning that there must be a negligible level of dependence. This can also be achieved through production revenues because foreign exchange revenues can be obtained as a result of production and is not faced with the risk of a currency increase. Thus, a more convenient adjustment to the liberal economy can be achieved. The reason for this is that there is no need to resort to elements such as borrowing in order to have the exchange rate decreased.
- Investments should be made by the private sector, not the public sector. For this purpose, the private sector should be encouraged. Employment can also be developed in an environment where the private sector is encouraged. In an environment in which employment in the private sector is developed, there will not be much need for employment in the public economy. This implies that the share of the public sector in the economy would decrease.
- An increase in the share of the private sector in the economy will also lead to an increase in tax revenues. Through an increase in tax revenues, financing can be ensured without the need for borrowing or with minimal borrowing.

If all these suggestions are implemented, the emergence of cases similar to the 1958 moratorium will be prevented. In this manner, ensuring each sustainable phenomenon is positive with a more effective and efficient economy will be possible.

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