Uludağ Üniversitesi
İktisat ve İdari Bilimler Dergisi
Cilt VII, Sayı 1, Nisan 1986

THE EARLY STAGES OF INDUSTRIALIZATION AND ECONOMIC DEVELOPMENT IN TURKEY

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SUMMARY

The period of 1923-1950 has a significant role and importance in the industrialization and economic development of Turkey. The Failure of liberal economic policies of 1923-1929 lead the Turkish Government to accept the principles of Etatism and planned industrial development. Althought the period is rather short, the 1930-1938 era created deep effects in Turkish Economy. Wartime economy of the years of Second World War and the following process of democratization had ungoing effects for long years. This article, deals with the developments of the said period and the discussions and the experiences in order to enlighten today's economic structure and philosophy.

ÖZET

Türkiye'nin sanayileşmesinde ve ekonomik kalkınmasında 1923-1950 döneminin özel bir yeri ve önemi bulunmaktadır. Liberal ekonomi politikalarının denendiği ulusal ekonominin ilk kuruluş yıllarında (1923-1932) uğranılan başarısızlık, Devletçilik politikasının benimsenmesine ve planlı sanayileşme çabalarına yol açmıştır. 1930-1938 döneminin Türkiye'nin bugünkü sanayii üzerinde derin etkileri bulunmaktadır. İkinci Dünya Savaşı yıllarında uygulanan savaş ekonomisi ve arkasından ekonomik yapıdaki değişme ve demokratikleşme süreci günümüze kadar gelen belirleyici unsur olmuştur. Bu makalede Türk ekonomisinde derin etkileri bulunan 1923-1950 döneminin gelişmeleri ve ekonomik sistem tartışmaları ve deneyimleri incelenmektedir.

The Ottoman Heritage

The Turkey of 1923 was an extremly underdeveloped country, saddled with inherited depts and the destructive effects of ten years of war.

In spite of early efforts by nineteenth century Sultans to establish state supported industries, such attempt had little impact on the overall economic structure of the Ottoman Empire. Approximate national income estimates for the whole

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of the empire in 1913 suggest that industry, including handicrafts only accounted for about 10 per cent of GNP with around 55 per cent deriving from agriculture. Although it was the mainstay of the economy, farming was generally backward and had low productivity (Cavdar, 1973).

Educated muslim Turks had tended to regard commerce and industry as beneath them, preferring a more prestigious career in the civil service or armed forces. The result was that what little modern industry there was frequently controlled by foreign capital or by members of non muslim minorities, nearly all of whom left Turkey during or immediately after the war.

The only basic improvement in the economic infrastructure during the late 19th and the 20th centuries had been in railway construction, but even this was limited to western Anatolia. For the most part, central and eastern Anatolia were entirely without modern communications. The vast majority of the network was foreign owned.

The banking system had also been developed during the 19th century, but here again foreign owned concerns had a predominant role, the most notable being the Ottoman Bank (with mixed French and British capital), the Credit Lyonnais, The Deutsche Bank and the Deutsche Orientbank. These banks played a major part in raising loans for the government, while the ottoman Bank had a monopoly of the note issue. The only important domestically owned credit institution was the Agricultural Bank, established by the Ottoman government in 1868.

Mining was the other main focus of overseas capital investment. In 1911, over 75 per cent of mineral production by value derived from foreign-owned mines.

In manufacturing industry it was the non muslim subjects of the Sultans, rather than foreign capitalists, who dominated the field, accounting for about 75 per cent of industrial capital. Only in the fields of textiles and cement had modern mechanised methods assumed a significant role; food processing, leather and woodworking were mainly carried out in small unmechanised units.

In general, changes in the 19th. century served to hinder, rather than aid, the development of the economy. Aware of the Sultan's need for diplomatic and military support against Russia, the western powers (notably Britain) forced the Ottoman government to abondon import controls so that the empire's handicraft industries, especially in textiles crumbled in the face of competition from cheaper imports. Turkey was effectively reduced to the role of a primary producer, exporting wool, cotton, tobacco and dried fruits in return for manufactured goods. Not suprisingly, the empire had a persistent deficit in its balance of trade.

To make matters worse, the Sultans' repeated failure to control government expenditure or improve revenue collection left Turkey with an enormous foreign and internal dept. In 1875 the Ottoman government had defaulted on the interest payments for loans so far contracted; this led to the establishment in 1881 of a Public Dept Administration, directed by the represantatives of the creditors, which took over the collection of revenues from monopolies on tobacco and salt, stamp duties, and taxes on liquor, fisheries and silk. The establishment of the Dept Administration improved the efficiency of the tax collection system, but reduced the country to a semi-colonial status. it thus became one of the prime aims of the republican regime to wind up the Dept Administration, on as favourable terms as possible, and to avoid the chronic overspending which had led to its establisment.

The founders of the republic were also left to cope with the damaging effects on the economy of the almost continuous wars between 1912 and 1922. Although there had been relatively little industry to destroy, damage in the cities were severe; İstanbul and İzmir had been burnt down considerably during the war. The railway system had also been damaged during the fighting.

The most serious cost of the war was a human one. The loss of the Greeks and the Armenians removed Turkey's most experienced source of business and technical talent. The incoming Turkish migrants from the Balkans were mostly peasents, so there was a serious shortage of skilled workmen as well as professional people and business managers during the 1920s.

Finally, the Treaty of Lausanne contained various provisions which affected future economic possibilities. On the positive side, the economic clauses of the treaty were a great deal less damaging from the Turkish viewpoint than those which had been envisaged in the abortive Treaty of Sevres. On the debit side, the Lausanne Treaty contained some serious restrictions in the fields of foreign concessions and the customs tariff. Turkey undertook to maintain all economic concessions granted to the foreign companies before October 1914. Turkish government had to buy out the concessionaires later. Secondly, the treaty obliged the government to maintain until 1929 the Ottoman customs tariff introduced in September 1916. The tariff gave insufficient protection for the development of infant Turkish industries and restricted the government's ability to raise revenue (Boratav, 1974 and Hale, 1981).

İzmir Economic Congress of 1923

In the February of 1923, a bare five months after the city's recapture, some 1.100 delegates representing farmers, traders, industrialists and labourers assembled in İzmir for the Republic's first Economic Congress, which was supposed to formulate proposals to the government in the economic sphere.

In the course of the Congress two crucial policy issues were debated at length. The first concerned the role of the state in the development of the economy. The Minister of Economy, outlined the government's ideological stance:

> .... The new Turkey should follow a mixed economic system. Economic enterprises should be undertaken partly by the state and partly by private individuals. For example, state should direct large scale credit and industrial undertakings.

In general, it was to become clear that the government was initially ready to allow private enterprise the major role in industrial development, and to limit direct government intervention to bacis public utilities and certain state monopolies which had a primary fiscal purpose.

A second critical debate concerned the role of foreign capital in economic development. The republican government was determined to avoid indepting the state to foreign bondholders. On the other hand they, were fully prepared to allow foreign investors to undertake spesific projects. The Minister of Economy was declaring that:

> we will not hand over Turkey or the Turkish economy, as a country of

slaves to foreign capital. However... we are prepared to recognise every kind of facility... to foreign capital...

And After

After the İzmir Congress it became clear that the state was to be responsible for major infrastructure investments, notably the railways. After 1923 the government began a massive extension of railway network. In 1924 the government had also decided to buy out the foreign owned railways; by 1930 about 3.000 km of line had been transferred to the state leaving some 2.800 km still in foreign ownership.

Apart from the railways, direct government investment was mainly limited to the state monopolies. These had been established primarily to raise revenue, but they give the government an interest in developing the industries concerned.

In 1924 Turkey's first important and domestically owned bank, Turkiye İş Bankasi was established. The following year the Bank for Industry and Minining (Türkiye Sanayi ve Maadin Bankasi) was set up. Taken together, these two banks effected an initial if quantitavely slight improvement of one of Turkey's most pressing problems-lack of long term industrial capital (Boratav, 1974).

In 1927 the republican regime had passed an industrial Encouragement Law, affecting firms employing at least 750 man-days of labour per year. Such enterprises were to be granted up to ten hectares of land free by the government, were to be exempted from taxes on land and property and profits, as well as import duties on machinery.

Although agriculture was obviously the basic source of Turkey's wealth, the government played a less active role in its development. Its principal medium of intervention was the Agricultural Bank which was reorganised in 1924. This Bank granted loans to cultivators in the rural districts. Apart from this direct injection of capital, the government's most important aid to agriculture was in the fiscal field. Until 1925 the peasent had paid an annual tithe (osur) equivelent to 12.5 per cent of his produce. This was then abolished and partially replaced by a sales tax. The tithe had accounted about 29 per cent of the government's total revenue in 1924; after its abolition, the gap in state finances was filled by an increase in the income from the monopolies.

The only other major alteration of the tax laws in the 1920s occured in October 1929, when the import tariff provisions of the Lausanne Treaty expired. The government immediately seized the opportunity to raise duties to 40 per cent ad valorem on all imports. The new tariff reduced the volume of imports to the extend that, in spite of higher duties, revenue collected from this source actually dropped in 1929 and 1930. The main significance of the change was its impact on subsequent industrial development, rather than on the structure of government revenue.

The experience of the 1920s indicated that fiscal and other forms of encouragement to private industrialists had not produced a major switch to industrial investment. Industry's share of GNP in 1930 was only slightly above that of 1925. Private capital and enterprenuerial skill were in very short supply, and had made little impact on an overwhelmingly traditional economy.

The Etatism

Despite the extensive efforts of the state to aid the development of Turkish industry and agriculture during the 1920s, capitalist development failed to achieve the envisaged results. There were numerous obstacles to the industrialization of the country during this period and, of these three were decisive (Berberoğlu, 1982):

1. Internal reaction and resistance of landlords and *esraf* in areas where their interests are treatened by industrialization and the process of modernization.

2. The failure of the expected transformation of the comprador bourgeosie into industrial capitalists. Although the state consistently encouraged the industrial sector through credit, grants and numerous important concessions they simply failed to take advantage of these concessions. Instead they made exorbitant profits in commerce and "paper" business.

3. The unfavourable terms of the Treaty of Lausanne, in force from 1925 until 1929.

In 1930 Turkish government faced its most serious crisis since the establishment of the republic. The peasantry had just recovered from the drought of the late 1920s, only to be hit by the collapse of agricultural prices caused by the world depression. With the coming of the depression, then Turkey began to experience considerable diffuculty in finding foreign markets for her agricultural produce and other primary products and thus lacked the foreign exchange necessary to continue importing capital equipment for the industrialization process.

The etatist principles of economic development which were adopted by the regime during the 1930s have been subjected to any number of different definitions and interpretations. The regime itself generally preferred to define Turkish etatism as a home-grown product, arrived at by an objective analysis of Turkey's economic situation rather than dogmatic ideological commitments. In practice, it amounted to the assumption that the state had the major responsibility for undertaking new industrial investment, even if this left private enterpreneurs at a disadvantage (Hale, 1981, p. 55).

The First Plan

The main practical expression of the etatist philosophy was Turkey's first five year industrialization plan, which was drawn up in 1933 and put into operation between 1934 and 1938. Essentially, the plan provided for the establishment of a series of industrial plants designed to reduce Turkey's needs for imported consumer and intermediate goods using domestic raw metarials. State agencies were to be responsible for financing, constructing and managing these plants. The main industries affected were the manufacture of cotton and wood textiles, paper, glass, ceramics, cement, semicoke, iron and steel and some chemical products. Emphasis was put on the industrialization of the backward regions of central and eastern Anatolia. Most of these development was realised within the plan period. Nearly all of these industries were completely new ventures for Turkey. Only in the case of textiles and cement could the Turks build on existing foundations, and here also the plan brought important gains in productive capacity.

To finance and control the expanding state industrial sector, two new development banks were established during the 1930s. *Sumerbank* took over the factories formerly run by the Bank of Industry and Mining, to which were added the majority of the new plants established under the plan. The second state agency, *Etibank* was established in 1935 with primary responsibility for the mining industry.

The initial capital of Sumerbank and Etibank was subscribed by the government, or inherited in the form of assets from predecessor organisations. The administrative pattern of the state industries was defined in a special Law passed in 1938. In theory, at any rate, the undertakings owned by the state banks (collectively known as state economic enterprises, or SEEs) enjoyed a more independent status than that of the annexed budget institutions. Unlike the latter, their revenues were not turned over to the Treasury, and their expenditures were not included in the annexed budget.

Originally, the SEEs were supposed to operate with a high degree of autonomy and to strive for profits as a private business would have done. In fact, the degree of political interference which the administrative system provided for meant that the practice fell well short of the ideal, and the SEEs became prey to inefficiency, excessive red tape and the demands of political patronage.

Throughout the 1930s and afterwards, government spokesmen frequently repeated that they had no bias against private enterprise, and that etatism encouraged private initiative. But, etatism was, by its very nature, bound to give the state sector an increased role in industrial development. With its easier access to capital the state tended to own the largest and most modern plants and should (in theory) have had a competitive advantage.

During the 1930s, apart from the foreign owned railways and coal-mines, there was no important state takeover of private enterprises, although the 1935 RPP programme had allowed for the possibility. It was only during World War II that the government took stringent measures to control the private as well as the state sector of the economy, and this spurt of interventionism could be explained as much by the practical constraints of the international situation as the ideological predelictions of the regime. Whatever her pre-war policies, Turkey, like other countries, was virtually compelled to introduce a new range of economic controls. In the process, the state sector increased its share of industrial output, at the expense of private industrialists.

The Wartime Years

The first economic casualty of the war was a second five year industrialization plan, which was prepared in 1936, and intended to be put into operation during 1939-1943. The only important new plant initiated during the second plan period was the iron and steel mill in Karabuk. Although some new plants were opened during the war, they mainly sufficed to expand the industries established under the first plan (Hale, 1981, p. 59 and Berberoğlu, 1982, pp. 37-42).

The state using its wartime powers forced private textile mills to sell their products to the state at a fixed price. For two years, moreover, the government took over the private cement plants, leading to fears of further expropriations by industrialists. The withdrawal of the Law for the encouragement of Industry in 1941 was another setback for private manufacturers. Private industrialists were not alone in their complaints. For the mass of ordinary consumers too, the war brought rampant inflation and a serious shortage of those goods which would normally have been imported. The black market flourished, so that quick witted merchants could make huge speculative profits. Wartime profiteering increased the capital accumulation of the merchant class, and thus intensified the demand for change from those who had gained as well as those who had lost from the inflation.

The new Democrat Party lost little time in articulating these demands. Nevertheless, they did so in very moderate terms. In their 1946 programme the Democrats stressed that they considered private enterprise one of the principal elements of the economy, that the limits of state economic activity should be clearly defined, and the state industries should not be granted special advantages.

Then the Democrat Party stepped into power in 1950, with high hopes that Turkey had entered a brave and bright new era.

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