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# Economic policy during Ataturk's era in Turkey (1923 - 1938)

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New Republic of Turkey took over Ottoman Empire with a highly centralized political structure; this structure featured authoritarian management with an economic infrastructure based mainly on agriculture, where commerce and industry were almost completely dominated by the Europeans. It is unlikely to grasp the new era in an integrated manner, if the economical and political structures are handled separately. The economical classification and considerations on Atatürk's period should also take into account the political restructuring and the relations in between. This is the only way to approach the question in an integrated manner. As a result of such an approach, we see that the attempt to create a nation- state understanding in the political domain from the very beginning, even though the analysis of the economic policy of Atatürk's period may be divided into two sub-periods, namely 1923-29 and 1929-1938, was not easy. It is evident that such an understanding that completely dominated the political domain could not be based on the inherent motives of the economic domain and the very rules of the markets at all.

**Key words:** Economy, policy, Atatürk period.

## INTRODUCTION

It has become a tradition to study the economic policy implemented during Ataturk's era by classifying it into two categories. According to this classification, the period between 1923 and 1929 is called the "liberal era" while the period between 1929 and 1938 is called the "étatism era".

It has been observed that the objections against this classification have gradually increased. It is emphasized that it will lead to misinterpretations to describe, particularly, the period between 1923 and 1929 as a liberal era without considering if some characteristics of liberal economies are applicable.

Economic assessments without considering the political and social aspects of the era (as well as external factors) will definitely fail. As a result, it is essential to take into account the political and social factors, along with economic criterion, in order to evaluate the politico-economy of Ataturk's era through an integrated approach.

From this viewpoint, information regarding the economic

and political heritage the Republic took over is presented in the first chapter. In the second chapter, we try to make sense of what kind of an economic model the young state under construction tried to implement, and in what kind of a political organization. In the third chapter, we seek to find out the diversifying elements in accordance with the previous era and the distinctive features of this era. In the final chapter, we try to understand the political economy of Ataturk's era within the context of its relationship with the political structure of those two eras.

## ECONOMIC AND POLITICAL HERITAGE TAKEN OVER BY THE REPUBLIC

The industrial revolution began in England at the end of the 18th century, and then spread around to other countries. Germany had an industrial revolution 75 years later; Japan, 100 years and the Ottoman Empire, 150 years later (Erkan, 1998: 204). The mass production resulting from the industrial revolution created its economic system and also resulted in changes in the political and social structures.

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When considered from the politico-economy aspect of the countries, the conservative systems implemented previously were abandoned. It has been claimed that the liberal trade was developing in favor of all countries. As a result of this system, the surplus products which appeared as a result of mass production in the West could enter into the developing countries' markets. The prevailing concept of post-industrial revolution was that with the abundant available factors of production in the countries, they would specialize on the goods they had and would purchase other goods abroad. This means the developing countries specialized in agriculture and exported agricultural products since they have labor-rich production factors. In contrast, the Western countries would export industrial products and import agricultural products since they have capital-rich production factors. This theory is the basic argument of the comparative cost advantage theory which became popular along with the industrial revolution. The Ottoman Empire would have a structure in which raw materials and agricultural products were exported, with industrial products imported.

As a result of the capitulations and commercial treaties with the Western countries, the Ottoman Empire applied free foreign trade policy in its latest form which was not seen, even in the West. Thus, the domestic market was occupied by the Europe-origin industrial products. The domestic small and medium capital industries which were in their infancy pulled out of the market, since they could not compete with the goods from Europe. The government did not have the right to increase the customs duty to protect the domestic industry from competing with the foreign markets. Additionally, the treasury was exposed to revenue loss because of not collecting the customs duties. On the other hand, the industrial facilities, which were very few in number, were already handled by the minorities. As a result of this economic structure, no significant progress was made toward industrialization, even at the beginning of the 20th century in Turkey.

In summary, the economic heritage that the young Republic took over was as follows:

- Basic industry could not be established in the Ottoman Empire, despite all efforts.
- There was an economic structure in which manufactured goods were imported and raw materials and foods were exported.
- There was no facility to process the mines. A significant part of the agricultural products used in industry was sold abroad, without being processed.
- The industrial facilities were established by the foreigners.
- The production did not meet consumption.
- The capacity usage ratio was low and the costs were high (The Commission, 2008:381-382).

Considering the heritage from the Ottoman Empire to the Turkey of the 20th century, from both economic and poli-

tical aspects, we can classify the basic features into two groups. On one hand, there were economic structures based on agriculture and opened to foreign trade and foreign capital; on the other hand, there were political structures which resulted from the central government concept (Pamuk, 1990: 198). In other words, it is obvious that the influence of the foreign capital increased in the late eras of the Ottoman Empire. This led the Ottoman Empire to be a raw materials and industrial products importer. Along with this, in political terms, a powerful central government was put in place.

## **ECONOMIC POLICY BETWEEN 1923 AND 1929**

Ataturk established a committee to create an economic policy which would be put into force in the young Turkish state. It is known that this committee, whose chairman was Ziya Gokalp, executed its activities in a railway car in Ankara Station, and Ataturk occasionally attended these studies (Da demir, 1998: 394).

Through the Treaty of Lausanne, Turkey was influenced both politically and economically. Although the capitulations that had heavy economical impact on the country were cleared, a significant part of the debts from the Ottoman Empire was taken over by the Republic of Turkey (Boratav, 2005: 44). Considering the borders prescribed by the Treaty of Lausanne, the debts of the Ottoman Empire were distributed among Turkey and the other states established within the borders of the former Ottoman Empire. It is observed that an independent economic policy was not followed in the first years of the Republic, because of the impacts of the Treaty of Lausanne on the subsequent years. Therefore, it should be emphasized that the international agreements had both immediate and future influence in determining the economic policy of the Republic of Turkey.

The conditions created from Turkey remaining unauthorized to arrange the customs tariffs (as a result of the provisions of the Treaty of Lausanne) led to the thinking that the liberal economy was in force. However, after the clearance of the restrictions of Lausanne (1929), it can be observed that the country headed towards conservatism and later on, an active and condensed etatism (Uzun, 2005: 113 - 114).

There is almost a consensus that the political economy of Ataturk's era started with the Economic Congress in Izmir in 1923. When a break was taken in the Lausanne Conference (15 February - 4 March, 1923), the Economic Congress in Izmir was gathered with attendance of 1,135 delegates. Young Turkey's economic problems were the main issue for the country which newly got out of the battle (nan, 1989: 12).

Through this Congress, the principles and objectives regarding nationalizing the economy were specified, displaying a spirit of national enterprise. These decisions had a major role in socio-economic and political formation of Republican Turkey. The goal of the Congress was to

bring about an agreement on the national economic policy which would be put into practice among the government staff, landowners, traders, and industrialists (which were few in number). Thus, this Congress was of vital importance in terms of the desire of the military-bureaucrats to have a political and social relationship with the proprietary classes and enhance these relationships with consensus (Gül, 1998: 402).

"There can be no political independence without economic independence and the national sovereignty should be supported by financial sovereignty", Atatürk said in his opening speech in the Congress. He also put forth the objectives in terms of the economic policy: "There is a reality left over from the filter of the history and experience. If the history of Turks is examined, it could be seen that the comedowns and breakdowns were resulted from the economic reasons. All the victories and failures are related to the economic conditions... Our people destroyed the enemy's armies. For total independency, there is a rule: the national sovereignty should be supported by financial sovereignty. The unique force which will take us to this objective is economy. No matter how great the political and military victories, they cannot be enduring unless they are crowned with economic victories. Who conquers with swords is doomed to be defeated, and finally leaves his place to who conquers with cultivators" (nan, 1998, 110).

These arguments obviously represent an idea that refers to a 'nationalistic' political structure with terms like 'independency' and 'national sovereignty'. The economic area would also be organized for this purpose.

In the Economic Congress in Izmir, it was decided to develop the domestic production, prohibit luxury imports, permit foreign capital provided that it contributed to economic development, and annul the administration of Reji, the company which held the tobacco monopoly. Other decisions included remitting the tithe (land tax) levy and replacing it with an applicable tax, and declaring the customs tariffs in order to protect the domestic market from competition with overseas goods. It was also decided to take rapid economic actions such as establishing an industrial bank which would provide credit to the industrialists, and adopting the law for encouragement of industry and having it extended five years later for the next 25 years (Ökçün, 1981:389 - 435).

Atatürk said that the capitulations which were applied due to enforcement by the Western countries had made the country a colony. He stated his views regarding this issue in Congress as follows: "A state which cannot levy a tax on foreigners but on its own citizens; a state which lacks the right to arrange its customs tariffs and other taxes; a state which cannot apply its jurisdiction to the foreigners in accordance with its law, that state cannot be called an independent state" (Aktan, 1998: 33).

The decisions of the Economic Congress in Izmir are considered the basic provisions of a conservative and nationalist economic policy aiming to achieve improve-

ment of the country by providing the governmental support for private enterprise (Karaman, 1998: 206).

After the Economic Congress in Izmir, in addition to the national banks such as Türkiye Bankası, Türkiye Sınai ve Maden Bankası, Türkiye Sanayi Kredi Bankası, and Emlak Bankası, many local banks were encouraged to be established. With these regulations made in the financial area, an initial financial infrastructure was established for the real sector. In addition, the current structure of Ziraat Bankası (Agricultural Bank) was modified and reconstructed, and the T.R. Central Bank was established. But the fact is that the state did not have a bank which was a treasurer, arranging the liquidity in the economy, providing price stability, and contributing money policies. These policies were all conducted by foreign capital weighted Ottoman Bank which prevented conducting a healthy money policy. In this sense, establishment of the central bank can be specified as a vital step.

Furthermore, the tithe which was collected over the agricultural income in kind and as a direct tax was cleared. Instead, a profit tax was created in order to compensate for the tax loss. In order to recover the loss resulting from the clearance of the tithe and increase the income of the state, some monopolies taken over from the Ottoman Empire were nationalized. In order to reduce the strength of foreign capital in the economy, the railway, port, mining, water, electricity, coal-gas, and telecommunication facilities which were held by privileged foreign companies were nationalized. Other economic activities of the state in this era were in communications.

To establish a communications network was very important for providing logistic support to the economy. Furthermore, besides the nationalization of the railways which were under the control of foreign firms, it was given importance to build up new railways. Another progress in communications was in the navigation sector. During the Ottoman Empire, many of the ports were operated by foreigners. The Cabotage Law was issued in 1926; as a result, Turkish shipping trade and transportation developed. In addition in the aviation area, an aircraft factory was established in Kayseri in 1926 (Co kun, 2003: 74).

The decisions taken in the Economic Congress in Izmir in order to support the private enterprise caused this era to be called the liberal era. If the concept of liberal is used in the meaning of supporting private capital, this might not be objected. However, if liberalism (as generally understood) means that the state's interference in the economy is at a minimum level, to call this era "liberal" leads to critical misinterpretations (Koçak, 2003: 30). It has been seen that no significant steps were taken regarding the liberal economy in the period between 1923 and 1929 (Uzun, 2005: 129). In fact, a liberal policy has not been applied since the beginning of the Republic; the state has always been a constant interventionist (Avciolu, 1969: 212). The economic policy and formal economic views of the period between 1923 and 1929

may even be claimed to show a continuance of the period between 1908 and 1922 (Boratav, 1988: 28).

Even though some economists have evaluated the economic policy executed by the administrations between 1923 and 1929 as a 'liberal era', the economic policy was oriented to create a national economy in the direction of a nation-state concept. In this era, there was sometimes state support to private enterprise, and the state itself sometimes acted as an economic actor in the market. A model in which the state both determine the investor and act as the greatest actor in the market obviously may not be called a "liberal model".

### **ECONOMIC POLICY BETWEEN 1929 AND 1938**

It is said that the significant characteristics of economic development for the period between 1929 and 1938 resulted from two events; one was internal and the other was external. It is suggested that these two events justify the state's interference in the economic life of the country. The internal event was that the importers, who were aware of the fact that the customs taxes would increase, caused an increase in the foreign trade deficit by realizing import gains without paying customs. The external event was the Great Depression (often called the greatest crisis), which began as a stock market crash in the USA and gradually influenced other markets (Tokgöz, 2004: 52).

When considering the Turkish economy before the Great Depression, an agricultural structure is observed. In this period, agricultural products such as cotton and tobacco were exported. Exportation was a good income source for Turkey. A major part of the exports was to the USA. At the beginning of 1929, the prices of exported goods were dramatically decreased. When the prices decreased, the foreign trade was reduced to a minimum level. Following the initial crisis, Turkey increased its customs duties. On the other hand, starting to pay off the debts inherited from the Ottomans is considered first among the factors which led to etatism very fast.

Undercapitalization, absence of a qualified labor force, and a lack of entrepreneurs prevented private sector development. In this period of conjuncture, the state directed the economic life, but this was not adequate.

The state itself had to invest as an entrepreneur.

In the formation of etatist economic policies in Turkey in 1930s, the following factors were most influential:

- The desired results were not achieved from the economic policies followed between 1923 and 1929. The previous policies did not prevent the crisis;
- The Great Depression of 1929 negatively influenced all economies throughout the world including Turkey;
- The first successful results of the planned economic policies conducted in the Soviet Union encouraged the

etatism. Since the Soviet economy had a weak relationship with the external markets, it was affected at only a minimum level from the crisis;

- The argument that "the market overcomes every problem" of the liberal capitalist economy policies was a major cause of the crisis. The idea of supporting intervention by the state in the economy gained popularity (Parasız, 1998: 29-30).

The general opinion regarding etatism, considering its application during this period and the opinions of administrations regarding this issue, is said to have been adopted as a pragmatic concept but not as a requirement of a doctrine. 'The etatism we approve to follow is not such a collectivist system based on socialism principle which takes away all means of production from private enterprise; aims to arrange the people based on other foundations; does not allow private enterprises and activities. Although we are predicated on the private enterprise, the etatism we follow is, in real terms, to make the state interested in the business requires the general and high benefits of the people particularly in the economic areas; to make the people live in welfare; to construct the country", said Atatürk, explaining his etatism concept (Aydemir,1988:448).

The etatism applied in this era included the following principles:

- The private sector is the essence. However, the state will invest in the areas where the private sector cannot invest.
- The state enterprise will primarily be in the industrial sector. The banks will be established in order to financially support private and state enterprises.
- The state will not have a role in agriculture.
- When private enterprise adequately specializes in any sector, that sector will be delivered to the private sector from the public sector (Hiç, 1998: 287 - 288).

In the light of these principles, Turkey embarked on a quest for an etatis industrialization model with the influence of the Great Depression of 1929. It tried to realize a planned industrialization era which was not even pronounced up to that period by the economic environment and adopted one of the first planning experiences. Since the industrialization did not occur as a normal process, the state was expected to establish and operate the industrial facilities. In a country where industrialization just began, it was seen as impossible to realize national development without state support in that era.

After deciding on establishing and operating industrial facilities for rapid economic development and industrialization, an "industrial program" was issued by an expert committee from the Soviet Union upon the instructions by the state. Behind having the Soviet experts issue the plan was undoubtedly that the Soviet Union was influenced by the world economic crisis at only a minimum level. Also, the Prime Minister, İsmet İnönü had visited the

Soviet Union and collected an 8 million Turkish liras interest-free loan in 1933. The plan was a list in which all industrial projects that will be realized by the state in five years were collectively shown. Despite all its inadequacies, the first Five-Year Development Plan was adopted and put into effect on 17 April, 1934 and was implemented between 1934 and 1938. The second Five-Year Development Plan which was issued by a committee appointed by Celal Bayar could not be implemented because of the Second World War (Da demir, 1998: 396).

The plans were not like today's development plans: they were narrow-scoped industrialization plans. The first plan aimed to establish and operate state facilities in the textile, iron-steel, paper, land chemistry, and mining sectors (Karaman, 1998: 209).

The etatism era began with this first Five-Year Industrial Plan. In this plan, the priority was given to reduce the dependency on foreign sources for the basic necessities, particularly in producing the three-white (flour, sugar and cotton) and the three-black (fuel, coal and iron) products. The majority of these types of investments were finished by financing them with their own resources (Tokgöz, 2004: 93).

With the objectives considered in the plan, it is evident that the priority was given to implementing a rapid industrialization policy for the development of the economy in Turkey.

A significant part of the investments were realized through Sumerbank and Etibank, and iron-steel, textile, and cement industries were established in that era. However, as understood from its name, the first Five-Year Industrial Plan included only the industrial sector and was not a macro-plan which included every sector and excluded the agricultural and service industries. While considering that the industrial sector accounted for 15% of the gross national product in the 1930s, we can say that 85% of the economy was excluded from the plan (Beyarslan, 1982: 38).

The major goals of the first Five-Year Industrial Plan were:

- To handle the industrial fields whose raw materials were inland and easily obtainable;
- To leave the establishment of the factories to the state or its affiliated organizations since their establishment needed great capital and technical power;
- To ensure the need and consumption of the produced goods were directly proportional, while specifying the production capacity of the factories which were thought to be established (nan, 1972: 20).

Except for the 8 million Turkish liras 20 year term interest-free loan from Russia in 1932, Turkey did not become indebted in the following 25 years. As soon as the restrictions set in the Treaty of Lausanne were cleared, a foreign trade surplus constantly occurred and 36 million TL in currency and 26 tons of gold were

collected within the Central Bank. The success of the first Five-Year Industrial Plan encouraged issuing a second one (Tokgöz, 1981: 47).

The major characteristics of the period between 1929 and 1938 were that the state took an active role in economy; priority was given to industry in economic development; and the industrialization was systematically conducted (Karaman, 1998: 209).

The etatism practices that were realized included: 1) establishing the modern industry by the state (which could not be established by private enterprise) in order for relief from import dependency for certain industrial products; 2) establishing new state monopolies; 3) keeping private activities under a tight control; and 4) nationalizing all privileged foreign companies and taking some of them as property of the state (Karaman, 1998: 209).

As a criticism of this era, it may be stated that the etatist economic policy which became more evident after the 1930s prevented the development of the market economy culture. The economic policies of the period caused the establishment of an entrepreneur class that was dependent on the state, which feared taking over risk and tended to gain easy profits. It may be emphasized that the etatist economic policy's long-term costs resulted from this class (Uzun, 2005, 110).

## CONCLUSION ABOUT ATATURK'S ERA

The approach which carried over from the Ottoman Empire in terms of political economy, and generally called a "national economy", was actively used during the First World War. This approach suggested that the state should interfere in and direct the economy in every field; that priority should be given to conservatism and industrialization; and a rich class should be created through the support of the state. A significant part of Ittihadists who were active in the administration of the Ottoman Empire after 1913 adopted this approach during the years of the war. Consequently, we can observe that in the first years of the Republic which inherited a fundamental convention of intervention by the state, the national economic policies were implemented or were likely to be implemented (Uzun, 2005: 112).

Generally considering the years between 1929 and 1938, while the world was occupied in the Great Depression and drawing the developing countries into this crisis, Turkey applied a self-enclosed economic policy, remained out of the crisis to some extent, and took significant steps in industry. In the years when the young Republic passed to etatism, even the developed countries who tasted the heavy economic influences of the Great Depression, started to believe in the regulative role of the state in the economy and took their own actions in this direction. The intervening actions played a vital role in overcoming the impact of the crisis. In the macro-economic policies that began with Keynes after the

Great Depression, it was extensively adopted that the state had an important role in the healthy operation of economic life.

However, private enterprise was given a place in economic policy during Ataturk's era in Turkey. There was an approach which did not allow all into the conditions of the market and in which the state determined the entrepreneurs. In accordance with this approach, there was no objection that foreign capital should be in the framework for the national benefit, but the market was dominated by rules determined by the state and not by the market.

Of course, there would be political and social results as intervention in the economic life became an etatist form. The increase in etatist intervention caused a powerful and highly developed one party system (Ahmad, 1996: 17). The etatist intervention obviously means that the person was enforced to obey.

Although the intervention did form in terms of economic policy in Turkey, the intervention had certain endurance in the years between 1923 and 1938. In this era, the governments actively directed the economic policies, and therefore, largely restricted the impact of the markets on economic decisions. In a sense, we can say that they played an inhibiting role in development and institutionalization of the market economy (Uzun, 2005: 116). It can also be concluded that this sociologically inhibited the development of a widespread and institutionalized market culture.

When a centralist concept which interpreted everything for the sake of state benefit and survival became widespread in every field of the political system, the economic field also took its part in this. Nationalizing the political and economic fields functioned as a legitimizing factor in making the society become self- enclosed. Establishing economic policy in the direction of "national interests" set up a legitimate ground for also controlling the social life.

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