

Post-war Economies (Turkey)

By [Dilek Barlas](#)

Summary

In 1923, Turkey was declared a republic after fighting against the Allied occupation (1919-1922) following the First World War. In the 1920s, the Turkish political leadership was mainly engaged in making reforms at the political level. At the economic level, they had not yet developed any strategy. In 1929, the world economic crisis offered Turkey the opportunity to develop a strategy autonomous from the collapsing liberal economic world order even though it badly affected Turkey's economy. However, the pre-conditions of another coming world war interrupted the implementation of this autonomous strategy in the first half of the 1930s.

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Introduction

This article analyses the [post-war economies](#) of Turkey which also illustrates the cases of neighbouring countries. First, the article focuses on the 1920s during which Turkey was in the process of forming a nation-state following the First World War and the War of Independence (1919-1922). Second, it discusses the effects of the 1929 economic crisis on the new born nation-state. Finally, it analyses the economic strategies that the Turkish state developed in the 1930s.

The 1920s

The Turkish Republic was not founded as a nation-state immediately after the First World War. The Turkish [nationalists](#) formed a republic after fighting for an additional four years. Turkey, which inherited the vestiges of the [Ottoman Empire](#), had to fight the economic and

political effects of the wars from 1911 (the Tripoli War) to 1923 (the foundation of the Republic). The Ottoman Empire/Turkey had gone throughout continuous demographic changes as a result of these wars. In 1914, the population of what is considered Turkey today was 16.5 million. By the end of the war, the Muslim population had declined by 2 million. As Şevket Pamuk writes, the Armenian population, which had comprised 1.5 million at the beginning of the wars, [was reduced to 100,000](#). After the signing of a population exchange between Turkey and [Greece](#) in 1923, 1.2 million Greek Orthodox left Anatolia and 500,000 Muslims/Turks from Greece and the Balkans came to Turkey.¹ By 1927, the Greek Orthodox population in Turkey was only 13,648.²

In 1923, even though Turkey had been declared a politically independent republic, it had to accept the economic restrictions of the [Lausanne Treaty](#) signed with the Allied powers. According to the treaty, Turkey could only apply customs duties on the goods of the signatory countries according to the customs tariffs of 1916. It also had to remove existing quantitative restrictions on foreign trade.³ In addition, the treaty required Turkey to pay two-thirds of the Ottoman debt.⁴ Turkey had already organized an economic congress in İzmir in 1923 while the Lausanne Conference was trying to come to a general settlement between Turkey and the Allies of the First World War. In fact, the economic congress adopted resolutions with measures to protect and nationalize foreign trade and even establish a national bank. However, these resolutions could not be implemented until 1928 because of the impositions of the Lausanne Treaty. As a result, Turkey could not develop a national economic policy in the 1920s since it was still dealing with the effects of long wars.

The World Economic Crisis

The world economic crisis in 1929 marked a turning point in the interwar period. The crash of the stock market in New York became a serious indication of a long-lasting crisis. The crash was a drastic manifestation of a transitional crisis which could be defined as a struggle for the reorganisation of the global economy after the First World War.⁵

Before the war, [Britain](#) had been the world's foremost trading and lending country. By 1913, British overseas investments amounted to nearly 45 percent of the external investments of the major creditor powers.⁶ Nevertheless, in the 1920s, Britain found it difficult to restructure the world economy. Britain had become heavily indebted to the [United States](#),⁷ which had begun to expand to its disadvantage.⁸ By the mid-1920s, New York surpassed London as a source of funds invested abroad.

However, the United States' attempt to take the lead in the new world order was interrupted by the 1929 crisis. Industrial production declined sharply; as a result, the market for agrarian products also shrank. In fact, the crisis hit Turkey and its surrounding countries more severely. Prices of primary products fell much more sharply than those of manufactured goods. The narrowing of external markets badly affected trade in primary producing countries. Moreover, these countries were not able to borrow from abroad because of the lack of foreign exchange.

The primary effect of the crisis on the Turkish economy was a severe decline in the prices of agricultural commodities. Prices of the leading crops, wheat and other cereals declined more than 60 percent from 1928/29 to 1932/33 and prices of the leading export crops – tobacco, raisins, hazelnuts, and cotton – fell 50 percent.⁹ As a result, Turkey's foreign trade deficit reached 21 percent.

Consequently, the gap between [industrial centres](#) and [agricultural zones](#) widened. The growing disparity between industrialised and agricultural countries created new forces which aimed to challenge the liberal world order. Many countries like Turkey started to oppose norms of global integration dictated by the industrial centres.

The 1930s

The first initiative that the Turkish state took in reaction to the economic crisis was to adopt new customs tariffs which provided an average nominal protection rate of 46 percent.¹⁰ In 1930, the Turkish government passed a law on export control and in 1931 it began to apply a quota system on foreign commerce. The aim was to develop national productions by limiting imports. Turkey prohibited the importation of goods which could be produced at home but allowed the import of goods indispensable to the country. As a result, the volume of imports in 1932-1933 was half that of 1924-1929.¹¹ The Turkish government also passed laws on foreign exchange markets and on the protection of the value of Turkish lira to stabilise the budget.¹²

At the İzmir economic congress in 1923, the Turkish political leadership already declared its aim of establishing indigenous industry. In 1927, the Turkish Grand National Assembly passed the law for the Encouragement of Industry. In the 1930s, the political leadership believed that the state should take the initiative to develop the national industry. In 1932, they prepared the first five-year plan based on state entrepreneurship. The introduction of the plan emphasized that Turkey's economic crisis could be understood if its relationship to the world economic crisis was examined.¹³

The rationale for Turkey's industrialization explained in the introduction criticised the liberal system which benefited only the European industrial states and furthered the economic domination of the non-industrialized. Liberalism was also criticised for being limited because it assigned a passive role to the state. The non-industrialized countries could be spared the disadvantages of the liberal economic order by becoming industrialised.¹⁴

In contrast to the 1920s, in the 1930s the Turkish state became the main actor in the building of railroads. In 1930, the Prime Minister [İsmet İnönü \(1884-1973\)](#) argued that the railway policy reflected the étatist policy at the opening of the Sivas railroad which was the first successful example of state initiative in the economy. He thought that the economic and political unity of the nation relied on the development of the railway network.¹⁵ During the same year, the Turkish National Bank (TC Merkez Bankası) was founded.

Between 1929 and 1937, the foreign-owned railway lines in the Mediterranean, the Marmara, the Aegean and the Eastern regions were nationalised. By 1938, most of the basic industries producing consumer goods were complete. Nineteen out of the twenty-five factories, projected as part of the first five-year plan, had already been established. From 1929 to 1938, industrial production increased 80 percent.¹⁶

Conclusion

In the interwar era, the concern of countries like Turkey was not only territorial and political but also economic. With the collapse of the liberal world economy in 1929, these countries made efforts to change their peripheral role. Most of them followed étatist policies. First, they took protectionist measures to develop an import-substitution economy. Second, they aimed to develop indigenous industries because they did not believe that some countries should specialize only in certain economic areas. In fact, Turkey successfully began the development of national industry with its first five-year industrial plan. However, the coming of the Second World War oriented Turkey towards a war economy. Even though the government had prepared a second industrial plan, it could not be implemented because of war conditions.

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Notes

1. These numbers also include the Greek Orthodox who emigrated from Western Anatolia in 1922. Pamuk, Şevket: *Türkiye'nin 200 Yıllık İktisadi Tarihi* [200 years economic history of Turkey], Istanbul 2014, p. 173. ↑

2. Mitchell, Brian: International Historical Statistics, New York 2007, p. 12. ↑
3. Barlas, Dilek: Etatism and Diplomacy in Turkey, Leiden 1998, p. 80. ↑
4. In 1925, the Ottoman debt was fixed to 85,597 TL with interest of 67.1. Eldem, Vedat: Harp ve Mütareke Yıllarında Osmanlı İmparatorluğu'nun Ekonomisi [The Economy of the Ottoman Empire in War and Peace Years], Ankara 1994, p. 229. ↑
5. Bright, Charles and Geyer, Michael: For a Unified History, in: Radical History Review 39 (1987), p. 78. ↑
6. Eichengreen, Barry: Elusive Stability. Essays in the history of international finance, 1919-1939, Cambridge 1990, p. 118. ↑
7. 4.7 billion dollar in war debts. ↑
8. Barlas, Etatism 1998, p. 3. ↑
9. Owen, Roger and Pamuk, Şevket: A History of Middle East Economies in the Twentieth Century, Cambridge 1999, p. 16. ↑
10. Manoilescu, Mihail: The Theory of Protection and Industrial Trade, London 1931, p. ix; Barlas, Etatism 1998, p. 82. ↑
11. Tezel, Yahya Sezai: Cumhuriyet Döneminin İktisadi Tarihi [The Economic History of Republican Era], Istanbul 1986, p. 152. ↑
12. T.B.M.M. Zabıt Ceridesi [Records of Grand National Assembly] 16, III. Session (20 February 1930), pp. 42-44. ↑
13. İnan, Afet: Devletçilik İlkesi ve Türkiye Cumhuriyetinin Birinci Sanayi Planı [The Principle of Etatism and the first five year plan of the Republic of Turkey], Ankara 1972, p. 7. ↑
14. Manoilescu, The Theory of Protection 1931, p. ix. ↑
15. İnönü, İsmet: Hatıralar II [Memoirs], Ankara 1987, p. 269. ↑
16. Barlas, Etatism 1998, pp. 98-99. Textile, sugar, paper, cellulose and earthenware were among these industries. ↑

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- [Treaty of Peace with Turkey, and Other Instruments, Together with Agreements Between Greece and Turkey Signed on January 30, 1923, and Subsidiary Documents Forming Part of the Turkish Peace Settlement, Lausanne, 24 July 1923 \(Hathitrust\) \(Primary Source\)](#)

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