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ANABİLİM DALI  
ULUSLARARASI İLİŞKİLER (İNG.) BİLİM DALI**

**POLITICAL ECONOMY DURING THE  
DEMOCRAT PARTY ERA AND TURKEY'S  
DEVELOPMENT EFFORTS**

Yüksek Lisans Tezi

EMRE TARIM

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Marmara Üniversitesi  
Sosyal Bilimler Enstitüsü Müdürlüğü

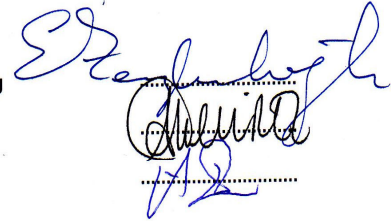
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### ÖZET

#### DEMOKRAT PARTİ DÖNEMİNDE EKONOMİ POLİTİKA VE TÜRKİYE’NİN KALKINMA ÇABALARI

Türkiye’de çok partili sisteme geçişten dört yıl sonra 1950 yılında iktidara gelen Demokrat Parti, 27 Mayıs 1960’a kadar iktidarda kalmıştır. Bu dönemde Türkiye çevre ülke özelliklerini sürdürmeye devam ederken, kapitalist dünya-ekonomisinde yaşanan genişleme sürecine paralel olarak, DP iktidarının ilk yılları yüksek büyüme ve yatırım oranları yakalamıştır. 1953 yılından sonra Türkiye’nin ihraç ürünleri lehine değişen ticaret hadleri ve tarım üretiminde yaşanan sıkıntılar DP’yi tedrici önlemler almaya iterken, bu önlemler yeni bir sermaye birikim modelinin temellerini atmıştır. Bu çalışmada Demokrat Parti döneminde ekonomide yaşanan gelişmeler, sermaye birikim modelinde yaşanan değişimler çerçevesinde Dünya Sistemleri Yaklaşımı kullanılarak ve inceleme Osmanlı’nın son dönemlerine kadar geri götürülerek ele alınmıştır. Türkiye’nin kapitalist dünya-ekonomisi içindeki konumunun ve Türkiye’deki sermaye sınıfı içindeki farklı grupların durumlarının incelenen dönemde çeşitli sermaye birikim modellerin benimsenmesi arkasında yatan etmenler olduğu gösterilmiştir.

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## ABSTRACT

### **POLITICAL ECONOMY DURING THE DEMOCRAT PARTY ERA AND TURKEY'S DEVELOPMENT EFFORTS**

Four years after the transition to multi-party system in Turkey, Democrat Party came to power in 1950, and remained in power until 27 May, 1960. While Turkey continued to exhibit the features of a peripheral country in that period, the early years of the DP era witnessed high growth and investment rates in parallel to the expansion in the capitalist world-economy. As the deterioration in the terms of trade for Turkish exports and difficulties faced in agriculture sector after 1953 forced DP governments to take temporary measures, those measures laid down the foundations of a new capital accumulation model. In this study, events in the economy during the Democrat Party era are analyzed according to the changes in capital accumulation model by employing the World-Systems Approach, and stretching the analysis back to the late Ottoman years. It is demonstrated that the Turkey's status within the capitalist world-economy and the constellations within the capitalist class in Turkey are the factors behind designation of various capital accumulation models in the analyzed period.

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Emre Tarım

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## INTRODUCTION

This dissertation investigates the political economy of the Demokrat Parti (Democrat Party-DP) era (1950-60) and Turkey's development efforts in that decade. The DP era is significant in Turkey's history in many respects. First of all, it was the first time when a different party governed the country under the multiparty system. Secondly, the DP era has been claimed by many as the time when the country's economy leap forward significantly for the first time in the Republic history. Others claim that the era was the start of a true deterioration in the revolutionary zeal of the young republic, and add that it can be defined as counter revolutionary. The significance of that era is so great even today current political parties claim the legacy of the DP, referring back to the party as their predecessor in terms of political philosophy.<sup>1</sup> Thirdly, the era ended with a military coup and the Prime Minister and two ministers were sentenced to death by an extraordinary court. The list of significance can be enlarged yet even the first three can be enough to dwell on the era. Especially the second reason is important in a way that the era is mystified by the opposite groups as either the foundation of today's 'modern and successful' Turkish economy or the sole reason behind all the 'negative' aspects of Turkish society i.e., corruption, reactionary movements, Americanization, etc. depending on the lenses of the critic. These kinds of observations are not confined to layman, it can be well observed in politicians and academic circles.

For instance, a well-known scholar of modern Turkish history, Sina Akşin, represents both views in his arguments about the DP era. Akşin claims that during the early years of the Republic, Atatürk and his colleagues designed a holistic development strategy, which transferred not only the material foundations of the West but also the scientific foundations behind it to Turkey. Alongside them, they adopted the philosophical and cultural aspects of scientific foundations. According to Akşin, this was the reason why during that era development in all areas of social life was recorded ranging from establishment of Istanbul University to construction of extensive railway

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<sup>1</sup> Especially AKP has referred back to that era after they won the 2002 elections in a similar vein, i.e. winning the majority of the seats in the parliament. Another contender to that legacy is DYP, which is actually the latest successor of the DP in terms of cadres.

network, from opening of an academy of music to building of Eskişehir sugar beet factory, and so forth. Akşin argues that in 1950, all of a sudden, this ‘holistic development strategy’ was abandoned and ‘materialistic development strategy’ was adopted instead. The latter is claimed by Akşin to have survived in Turkey since 1950, and likened to the strategy Saudi Arabia puts in practice today. Akşin posits that, all the focus is on building necessary infrastructure and industrial base to prime the pump of material development. That is to say, these strategies were founded on economic growth rather than development. Akşin adds that the social and cultural development was ignored and left to be handled once the material development was realized. The scholar admits that in terms of economic growth, the DP registered a very good performance.<sup>2</sup> He adds that Adalet Partisi (Justice Party - successor of the DP) also adopted the same strategy and was similarly successful. Nevertheless, Akşin posits that the DP was to a large extent responsible for the political turmoil during the late DP era, and political problems during the various AP governments were mostly the fault of the DP’s successor. Also, he claims that DP destroyed the cultural foundations of the young Republic because the DP expropriated Halk Evleri (the Public Houses) and diluted their original function, i.e., ‘enculturation of people,’ and shut down Köy Enstitüleri (Village Institutes) which were disseminating the philosophical and cultural foundations of the Republic to peasants who usually dwelled in the most backward regions of the country. Akşin claims that the ‘darkness’ caused by these events over people has yet to be enlightened in Turkey<sup>3</sup>

Another scholar and a well-known public figure, Emre Kongar, argues that cultural development and economic development should be realized simultaneously to develop a country properly and this was put in practice during one-party rule in Turkey. By cultural development Kongar means rise in level of education, cultural activities and

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<sup>2</sup> As shall be seen in chapter three, this observation is more valid for the first half of the DP’s tenure. In the second half, economic growth came to a halt. However, between the years 1950 and 1960, one can observe absolute economic growth. See Chapter 2 for details.

<sup>3</sup> Sina Akşin, “Introduction,” in **Turkish History Vol. 4: Çağdaş Türkiye 1908-1980**, edited by Sina Akşin et. al, 8th edition (İstanbul: Cem, 2005), 16-18. The claims about cultural destruction are made on page 215-6. It is interesting to see that when the motion regarding the Köy Enstitüleri was passed in the Turkish Grand National Assembly, there was no opposition from Cumhuriyet Halk Partisi (CHP-Republican People’s Party) which founded those institutions. For the statement of the then Minister of Education regarding this issue, see Serhan Yücel, **Demokrat Parti**, (İstanbul: Ülke, 2001), 97-8.

participation in them, and protection of cultural and natural assets. He gives the example of the music academy and the Opera Building opened in Ankara as the evidence of this two-pillared development strategy during the one-party era.<sup>4</sup>

Regarding the respective political economies of one-party and the DP eras, Kongar argues that the Republic adopted a strategy to support capitalist development by investing directly in economy and funding petty bourgeoisie to create an industrial base and prime capital accumulation. This strategy, according to him, led to corruption and nepotism. These people were even called Aferists in the 1920s, inspired from the French word *affairisme*.<sup>5</sup> However, Kongar argues that Mustafa Kemal Atatürk and İsmet İnönü, two most important figures of modern Turkish history, opposed these fraudulent acts, and some of the people involved were either sacked or brought before courts and punished. For Kongar, the DP era resurrected nepotism and in fact, not only the restraints during the one-party era on aspirations of feudal or capitalist landlords and Aferists were unleashed, but also the aspirations of newly urbanizing peasantry to plunder the cities and state assets started to be realized due to DP's populist policies. Together, they started an all encompassing era of plunder in Turkey and this line of policies were firmly established in various AP governments and reached its peak during Anavatan Partisi (ANAP-Motherland Party) governments in the 1980s and early the 1990s. Therefore Kongar sees 'the economic plunder problem', one of the problems that prevents establishment of democracy in his view, as the legacy of the DP era.<sup>6</sup>

Many other examples of such arguments from other scholars and commentators regarding the DP era can be given as this era has received abundant attention from the academic and other circles. About the political economy of the era, one can find detailed accounts of policies adopted and their consequences, and continuities and

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<sup>4</sup> Emre Kongar, "Ekonomik Büyüme ve Kalkınma," retrived from Kongar's official website at [http://www.kongar.org/makaleler/mak\\_mi.php](http://www.kongar.org/makaleler/mak_mi.php) , last accessed 31 March 2006.

<sup>5</sup> *Affairisme* means favouring commercial relations over anything. Aferist is defined as a person who constantly pursues his/her self-interest, plunderer, manipulator. For details, see Baskın Oran, Aferizm ve Aferistler kutusu, *Türk Dış Politikası, Kurtuluş Savaşından Bugüne Olgular, Belgeler, Yorumlar*, Vol. 1, 8th ed. , edited by Baskın Oran (İstanbul: İletişim:2003), 246.

<sup>6</sup> Emre Kongar, "Demokrasi Kültürü Sorunları," paper presented at Kültürel Açından AB'ye Yaklaşım Sempozyumu, 22-24 November, 2001, retrieved from, [http://www.kongar.org/makaleler/Demokrasi\\_Sorunlari.php](http://www.kongar.org/makaleler/Demokrasi_Sorunlari.php) , last accessed, 31 March 2006. In this paper, Kongar argues that DP wasted a real opportunity to establish the foundations of true democracy in Turkey by its populist policies that led to a 'dictatorship of majority.'

changes between the preceding and the DP era.<sup>7</sup> In this context, the aim of this dissertation, which is to dwell on the political economy of the era with an emphasis on the development efforts of Turkey, may seem unnecessary. There are various studies dwelling on the era either solely or as a part of modern Turkish history. However, they are either descriptive accounts of the era without any theoretical framework, or sometimes conditioned by ideological orientations of the researcher.<sup>8</sup> This study aims to transcend such problems. For this reason, it employs The World-Systems Approach (the WSA). The WSA is a very comprehensive theoretical framework for long-term social change in the capitalist world-economy since the 16<sup>th</sup> century. It understands the emergence and development of the capitalist world-economy and the modern state system as parallel processes and articulated to each other with the axial division of labour among three different production zones. These are core, semi-periphery, and periphery. The relations between these three production zones and corresponding relations between multi-polities in the modern state system are the main focus of the WSA.

The details of this approach and its views on development shall be elaborated briefly later in the introduction. The first chapter is devoted to the concept of development, contending approaches to it, and an extensive elaboration of the WSA to introduce the structure where individual national units operate, namely the capitalist world-economy, and possibilities of change for those units within that structure. Bearing this structure in mind, the second chapter turns to the DP era. To put the domestic context and the political economy of the era in the historical perspective, the preceding period is analyzed. Following that, the main emphasis of the chapter shall be on the

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<sup>7</sup> See for instance, Mustafa Albayrak, **Türk Siyasi Tarihinde Demokrat Parti: 1946-1960**, (Phoenix: Ankara, 2004), which is the most extensive work on DP. Also see, Cem Eroğul, **Demokrat Parti: Tarihi ve İdeolojisi**, 4th ed. (Ankara: İmge, 2003), Stefanos Yerasimos, **Az gelişmişlik Sürecinde Türkiye Vol.3: 1. Dünya Savaşından 1971'e**, 7<sup>th</sup> edition (İstanbul: Belge, 2005).

<sup>8</sup> Korkut Boratav, **Türkiye İktisat Tarihi 1908-2002**, 9th ed. (Ankara: İmge, 2005): 93-116 is a good analysis of the DP era in terms of continuities and changes between the era and the preceding period with an emphasis on macroeconomic and socio-economic indicators. Similar but a shorter account is provided by, Gülten Kazgan, **Tanzimattan 21. Yüzyıla Türkiye Ekonomisi**, 3rd edition (İstanbul: Bilgi, 2006): 77-95. The relevant chapters in these two books make some comments on the so-called ideological aspects of DP, see especially the criticism Kazgan makes on page, 94. Gülten Kazgan, **Türkiye Ekonomisinde Krizler (1929-2001): Ekonomi Politik Açısından Bir İrdeleme**, (İstanbul: Bilgi, 2005): 93-128 is a very good example of an explanatory account of the era in terms of political economy with an emphasis on the dynamics of the capitalist world-economy and problems in macroeconomic issues.

exploration of the DP era with reference to frameworks of political economy and state-society interactions developed in the introduction and the first chapter. The significant changes or attempts to change shall be traced. In order to do the former, the position of Turkey within the capitalist-world economy shall be determined according to the three layered framework of the WSA, i.e. core, semi-periphery, and periphery. The conclusion of the dissertation shall be devoted to the general evaluation of the DP era in the light of the findings of the prior chapters. The evaluation shall aim to arrive at an objective assessment of the era with regard to its far reaching effects, if any, on Turkey's status within the capitalist world-economy in subsequent decades.

After this concise plan of the dissertation, the concepts within the topic of the dissertation i.e., political economy and development, and the WSA, shall be elaborated briefly. A text book definition of political economy argues that as an approach to the study of politics, political economy is interested in 'the relationship between government and economics 'on issues, such as tax policy, public expenditure on infrastructure and defence and who will bear the costs of this expenditure, and so forth.'<sup>9</sup> Although quite a limited definition in scope, this definition assumes that certain amount of wealth is created in the country and government and actors in the economic realm interact with each other in allocation of this wealth for various purposes. Thus, one can argue that nature of this relationship is broadly concerned with wealth creation and allocation of this wealth within that country. As the mode of production and relations of production determine how the wealth is created in a country, capitalist mode of production and class relations gain prime importance in any analysis of political economy. Therefore, political economy is also concerned with questions, such as where the state stands or should stand in the mode and relations of production. Answers to these questions have been sought for quite a long time, maybe more than centuries. Various schools of thought regarding the origins and functions of the state have been developed, each with its own particular approach to this and other related issues, such as the origins of the modern state, class issues within the state, functions of the state, and

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<sup>9</sup> Robert Jackson and Doeren Jackson, **A Comparative Introduction to Political Science**, 1<sup>st</sup> edition (Prentice Hall, 1996), 28.

so forth.<sup>10</sup> Making a synthesis between Marxian and Weberian approaches to these issues, Gülalp argues that class in a capitalist economy can be defined according to means of production and relations of production. The ownership of means of production, such as land, capital, factory, and lack thereof on the part of producers determines the classes within the market mechanisms. Therefore, private property gains prime importance in the emergence of the capitalist mode and relations of production. Here, the role of the state is to secure private property and freedom of contract that are two essential pillars of the market mechanisms. The rise of the modern state and establishment of private property (separation of producers from their means of production) were the obverse sides of the same coin.<sup>11</sup> Regarding the economic growth or development, or any strategy to realize them, any class analysis bears better results when classes that aim to ‘progress’ or ‘develop’ are analyzed.<sup>12</sup> Of course in a capitalist economy, such classes as the capitalist class and different factions in it are the ones which have the chance to accumulate capital.

The international context should be added to the above framework as the third dimension of political economy. The effects of the outside on the inside are hardly thwarted in absolute sense. Hence the international influence on the creation and allocation of wealth. As the number of sovereign states had increased quite significantly especially after WWII, the international dimension of political economy gained significance in the form of economic development. The initial interest in development was concerned with issues of political development, understood as passing through phases from traditional to modern societies and consequent changes in societies, such as

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<sup>10</sup> Especially regarding the origins of the modern state, Weberian and Marxian interpretations are important. Although both see the origins of the modern state in the rise of capitalism in Europe, they differ in their understanding of capitalism and hence the role of the state vis-à-vis the various classes in society. At the heart of the debate lies the autonomy of the state in relation to these classes, mostly to the capitalists. Weberians stress the autonomy of the state from all classes whereas Marxists stress the alliance between the state and the capitalists, some of them claiming that the state is a tool in the hands of capitalists to resolve class conflicts. However, it should be noted that there are many variances in each approach towards these issues. For details of these approaches and a possible synthesis between them see Haldun Gülalp, **Kapitalizm, Sınıflar ve Devlet**, (Ankara: Belge, 1993), chapter one: 9-22.

<sup>11</sup> Ibid.

<sup>12</sup> Gülalp, **Gelişme Stratejileri ve Gelişme İdeolojileri**, (Yurt: Ankara, 1987),96-7, quoted in Fuat Ercan, “Sınıftan Kaçış: Türkiye’de Kapitalizm Analizinde Sınıf Gerçekliğinden Kaçış Üzerine,” in **Küresel Düzen: Birikim, Devlet ve Sınıflar**, edited by A.H. Köse, F. Şenses, and E. Yeldan, (İstanbul: İletişim, 2004), 616.

social and cultural changes.<sup>13</sup> The international interest in this issue created several approaches and later incorporated economic aspects into the political development as a transition from the traditional to the modern. These approaches were the variants of the Modernization Theory, a theory that defined change in terms of theoretical stages inspired by the stages the developed world had passed through, and they ignored the affects of outside on this ‘transition from traditional to modern in all areas’ in national units.

As a reaction to this, several approaches with Marxist origins emerged to incorporate the effects of the international system, especially the capitalist world-economy, on economic development. They tried to understand the dynamics behind national economic development by looking at how the capitalist world-economy conditioned the relations between national units. The Marxist response was mostly against the economic variants of the Modernization Theory. As their analysis of the society was based on economic dynamics, they did not present an anti-thesis against political variants of the Modernization Theory.<sup>14</sup> Indeed, the political and economic variants of the Modernization Theory influenced each other’s understanding of what development means. One can see the consequences of this influence on contemporary social sciences. To give an example, categorizations, such as developed, developing, Third World and so forth reflect both pillars of development. Although a relatively prosperous country with a high per capita income, Saudi Arabia can be included in the Third World category by these approaches because of ‘their traditional political processes’<sup>15</sup> (read lack of democracy and human rights issues).

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<sup>13</sup> For instance, in the Charter of League of Nations, development was mentioned in the context of mandatory system. It was mentioned especially for the peoples living in the Ottoman territories that they developed to the extent that they could be recognized as independent states. However, various peoples from Africa were not deemed in that stage and they were to be ruled by the developed ones. Here development was probably used as a synonym to civilization and hence more concerned with the social and cultural. A decade later, the organization mentioned ‘economic development of primitive societies.’ For details of League of Nation’s understanding of development and debate among its contemporaries, see Fikret Başkaya, **Kalkınma İktisadının Yükselişi ve Düşüşü**, 3<sup>rd</sup> edition. (Ankara:İmge, 2000),20-1.

<sup>14</sup> Yet, a follower of this tradition of providing an alternative to Modernization Theories, especially regarding economic development, Immanuel Wallerstein, provided a very comprehensive account of formation of capitalism and state, which could be seen as a full-fledged answer to all variants of the Modernization Theories. See his three volumes on this topic, **Modern World System I-II-III**, various editions (New York: Academic Press, 1974, 1980, and 1989 respectively).

<sup>15</sup> Jackson and Jackson, 406.

Behind such reasoning lies the comparative analysis of societies. In fact, this analysis was the main methodological tool in Modernization Theory. “Traditional countries” were so in relation to “modern” ones. What made modern countries “modern” was the argument that the stages these countries had passed through in centuries were universal. Therefore, this methodology created many parameters to determine what is “developed”, “developing”, or “underdeveloped”, such as GDP per capita level, life expectancy, infant mortality rates, literacy, schooling, urbanization levels, political system, market type, human rights indicators, and so forth. With those parameters, scholars could easily define which countries were underdeveloped, of course, in relation to developed ones. Thus, the indicators from the latter were the benchmark to reach a judgement of a particular country. Once the verdict was given, prescription followed. Not surprisingly, as Modernization Theory understood development in stages the ultimate stage was the one at which developed countries were. As economic aspects of political development were taking foreground after WWII, the parameters associated with economy were sophisticated and used extensively to measure economic development.

Development as a concept is about social change. Whether inspired by universal stages of Modernization Theories or rejection of such stages, development looks at what changes in a society and related questions, such as why, how, and with what consequences. As mentioned before, development has components, i.e., political, economic, cultural, and social. However, these parts overlap. That is why definitions of each comprise changes in other parts. Economic development is usually seen as a process whereby wealth creation in the society changes in terms of method, size, and consequent social and economic changes. A text book definition of economic development attests to this observation: ‘[it] refers to the combined process of capital accumulation, rising per capita incomes (with consequent falling birthrates), the increasing of skills in the population, the adoption of new technological styles, and other related social and economic changes.’<sup>16</sup> It is argued in that text book that ‘the most central aspect [of economic development] is capital accumulation (with its

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<sup>16</sup> Joshua Goldstein, **International Relations**, 4<sup>th</sup> edition. (Longman, 2001), 577. Goldstein cites five books on development for this definition.

ongoing wealth-generating potential). This is an important observation in two ways. First, without surplus creation and hence economic growth, it is believed that the 'trickle down' effect, i.e., alleviation of poverty and unemployment, can never materialize. Second but more important, the model of capital accumulation to a large extent determines the consequent changes in a society. If a country adopts industrialization as the model, the agriculture sector may be put under heavy pressure for extra-surplus creation to fund industrial development. This may encourage migration to urban areas and hence urbanization because of better job opportunities in newly established industries or declining profit rates for individual producers. Therefore, the model of capital accumulation has a decisive affect on the fate of respective sectors and people working in them. Because of the model of capital accumulation chosen in the development process, a society may gradually decrease the share of agriculture sector in its GDP and diverts its redundant sources to industrial sectors. Alternatively, a country may choose to accumulate capital by creating a mature domestic market for its domestically produced industrial goods. In this case, it may not be necessary to put too much pressure on the agriculture sector as this deprives producers of the necessary income to afford consumer durables. Also for the same reason, wage levels of industrial workers in these countries are better than those of workers in countries that choose export-led growth strategies. .

Economic growth and development are sometimes used as synonyms as above. However, it is controversial because economic growth measured as the rise in Gross Domestic Product per capita does not really reflect how the wealth is distributed in the country. By the same token, economic development 'has a subjective side that cannot be measured statistically- the judgment whether a particular pattern of wealth creation and distribution is good for a state and its people.'<sup>17</sup> That is why there are many other indicators of development to better depict the effects of particular patterns, such as decreasing infant mortality rates, increasing life expectancies, the rise in the level and quality of education, and so forth. Thus, development comprises economic, social, and cultural changes all of which are closely linked to each other. Nevertheless, capital accumulation is the crucial aspect of it because of its on-going wealth generating

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<sup>17</sup> Ibid.

potential. The role of the state in development process can be manifold. It provides judiciary and physical infrastructure in many areas. Moreover, it may actively intervene in the development process, and coordinate it with investment and development plans, help it via credit provision, or investing directly, etc. More importantly, since the state retains the sovereignty, i.e., the supreme authority over others within the borders of a country, it can set the parameters of economic and political organization there. Hence the state's prime importance in development efforts.

However, the parameter setting feature of the state does not happen in isolation. The organisation of social, political, and economic life within a territorial state are not necessarily under the monopoly of the state regarding the ideas of organization and realisation of them. The existence of various classes in a society and conflicts of interests between them help determine the settings of parameters regarding economic and political organization. In this context, the state may assume roles that may favour one class over another. That is why the model of capital accumulation is shaped by domestic class relationships and these are reflected in state policies. In this context, the state assumes a central role in continuation and enforcement of a specific model of capital accumulation.

It is not only the domestic class relations that shape the model. The position of the state in world division of labour is the second factor behind it. This is not surprising as the external effects on the internal organisation of the state has been neither fully averted nor decided once and for all, the opposite of which would have provided a rather insulated and static domestic environment in terms of exercising domestic sovereignty, '[that] refers to both domestic authority structures and how effective they are,'<sup>18</sup> and hence realisation of development targets.<sup>19</sup> It is these very external factors

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<sup>18</sup> Interview with Stephen D. Krasner by Harry Kreisler in **Conversations with History: Institute of International Studies, UC Berkeley**, 31 March 2003. Available at <http://globetrotter.berkeley.edu/people3/Krasner/krasner-con0.html>, last retrieved on 1 May, 2005.

<sup>19</sup> Halliday stresses this reality in his introduction by concluding: 'There can be... no purely national history of any state; equally there can be no theory of the economy, the state, or social relations that denies the formative not just residual or recent impact of the international. See, Halliday, "Introduction: The Pertinence of the 'International'," in **Rethinking International Relations**, (Basingstoke: MacMillan, 1994), 1-4 and "State and Society in International Relations: A second Agenda," **Millennium** Vol. 16 (1987), 83, quoted in Janice Thomson, "State Sovereignty in International Relations: Bridging the Gap

alongside the domestic class relations that conditions what line of policy is to be adopted and what authority structures are to be founded to realize the targets. Thus, approaches that ignore the structural dynamics of the world economy are prone to fail to see how states are locked in the production, credit, security, and knowledge structures all of which are involved in creation, distribution and protection of wealth in the world.<sup>20</sup> While some of the states and interest groups set the parameters of these power structures, others join them according to these parameters. Thus, a theoretical framework that takes into account these dynamics is preferable over the former approach in better understanding why a specific line of policy is adopted by a ruling political party. That is why this study employs the World-Systems Approach (WSA) as the theoretical framework.

The WSA emerged as a reaction to Modernization Theories and it is a very comprehensive school of thought about long-term modern social change since the 16<sup>th</sup> century. That is why it was initially developed to understand the articulation of capitalist-world economy and the modern state-system. The unit of analysis in the WSA is the capitalist-world economy. Similar to the four structures mentioned above, the WSA argues that there are three zones of production, i.e., core, semi-periphery, and periphery. This is called the axial division of labour in the capitalist world-economy. While the core areas involve in high-skilled capital intensive production, the peripheral areas in low-skilled labour intensive ones. The semi-peripheral zones are a mid-way house between the two, involving in both core-like and periphery like production. The articulation of the modern state system was parallel to the articulation of these production zones. The consequent division of labour shape the model of accumulation in states. For instance, in peripheral countries, which produce raw materials and labour intensive products, the model of accumulation is usually based on selling these commodities in the world market following an export-led growth strategy. In core countries, a mature domestic market and competitive advantage in capital intensive products vis-à-vis other two zones accommodates both inward and outward looking

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between Theory and Empirical Research,” *International Studies Quarterly* Vol. 39 (1995), 217, for his arguments in detail.

<sup>20</sup> These four power structures are popularized by Susan Strange in her seminal book on international political economy *States and Markets* several editions.

growth strategies. In semi-peripheral countries, the model of accumulation may look similar to the model in core countries. Nevertheless, the markets they command in exportation of capital intensive high-skilled products are usually the peripheral markets although they can acquire niches in core markets due to relocation of core industries because of cost advantages in semi-peripheral regions. That is one of the reasons why some peripheral countries make it to the semi-periphery.

Regarding such shifts, the WSA provides quite a novel approach to development. To begin with, it rejects the idea of development that is posited by Modernization Theories. According to WSA, due to the axial division of labour and unequal exchanges between the three zones, there is no such thing as passing through stages and reaching the core but there are opportunities of shifts in times of expansions and contractions of capitalist world-economy. Secondly, these shifts are made at the expense of other countries. Not all countries can make it to the core or semi-periphery. When a shift occurs in the position of a country, it is made by means of capturing an existing part of the pie, especially in times of contractions at the expense of others. Alternatively, they can change their positions by invitation from core countries as in the case of relocation of some core industries to the periphery because of cost advantages or protection walls. These opportunities and related strategies of shifts are explained in more detail in the first chapter.

## **CHAPTER 1**

### **DEVELOPMENT: CONTENDING APPROACHES**

As mentioned before, this dissertation aims to employ the World-Systems Approach (the WSA) as the theoretical framework of the study. The reasons for this decision are not only based on the WSA's critical view on the concept of development but also on the WSA's understanding of international relations and the dynamics between the inside and outside of the main political domain, namely the state. That understanding makes it a better suited approach to the study of political economy of the Democrat Party Era. This chapter has three purposes. The first one is to explain the decision of the theoretical framework in greater detail regarding the concept of development and contending approaches to it. The second one is to elaborate on the WSA to introduce its relevant bits to the topic of this study. These are several components of the forces and relations of production i.e., core and periphery; unequal exchange; semi-periphery; capital accumulation; cycles and secular trends in the capitalist world-economy; and possibilities of shifts within the three layered system. Also related are the so-called political aspects of the capitalist world-economy i.e., the multi-cultures and polities possessing designated territories and the relations among them. The third one is to elaborate on two essential concepts i.e., capital accumulation process and axial division of labour with reference to political economy and development. These two former concepts shall be related to the latter ones in order to provide the parameters to be examined in the DP era.

#### **I. Linear versus Dialectical: Contending Approaches to Development**

To explain the WSA's view on development, the conceptual framework offered by Modernization Theory regarding development should be explained here because the former is based on rejection of the latter. As Terence Hopkins explains it, 'modernization studies' were a compound of different fields, such as economics, sociology, and political science, and they tried to make sense of the long-term social change. Modernization theory was comparative and prescriptive in nature. The modernist development notion was based on a linear unlimited progress of a society in

the course of time if ‘appropriate’ models were employed. Usually the appropriate model was informed by the belief in progress, the progress that was achieved by the West European and North American countries. Thus, developing countries were deemed in an earlier stage at the linear development path that had been treaded by the developed countries.<sup>21</sup> This mechanistic development view had its Marxist version among the socialist world and Wallerstein called it evolutionary Marxism. Although the model country was different, i.e., the USSR, and the stages were relatively longer, i.e., slavery-feudalism-capitalism-socialism, the idea was that each nation had to go through various stages in order to reach the desired state of welfare, equality, and other selected values.<sup>22</sup> These views were discredited in the course of time due to doubted capacity and also failure of the developing countries to leap forward and reach the stage where the developed countries were at. One important flaw in different versions of evolutionary theory was their neglect of the global dynamics of political economy and taking the nation-state as the sole unit of analysis in which it was thought development could be realized in isolation and in the manner that was done by the advanced world. In the following paragraphs, some of these evolutionary theories of development are mentioned to demonstrate how these assumptions influenced these theories.

Fikret Başkaya makes a review of modernist development theories that are based on neo-classical and Keynesian assumptions. Among these theories, Baskaya mentions the influence of Ragnar Nurkse’s theory about underdevelopment on later theories about development. According to this theory underdeveloped countries are so because they are poor. As they are poor, this condition reproduces itself and traps the underdeveloped country in a vicious cycle. The following theories of development were designed to cure this problem of underdevelopment. They all stressed the importance of capital accumulation and hence economic growth, and the trickle down effects of the former. Baskaya mentions three theories: ‘Balanced Growth’ theory developed by P.N. Rodenstein-Rodan, the Harrod-Domar Model, and Rostow’s stages of economic development. The Balanced Growth, also known as ‘the Big Push’ theory argues that to register economic growth, the supply and demand side of the economy,

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<sup>21</sup> Terence Hopkins, ‘The Study of the Capitalist World Economy: Some Introductory Considerations,’ in **The Capitalist World Economy**, edited by Immanuel Wallerstein, 21-2.

<sup>22</sup> Immanuel Wallerstein, **The Capitalist World Economy** (Cambridge: CUP, 1979), 52.

and components within them should be uplifted simultaneously to allow the domestic markets to afford goods, and complementary sectors within the supply side to gain greater profits and efficiencies. This theory puts more stress on the role of planning and state intervention in capital accumulation and does not believe so much in the benefits of free-market and specialization for the sake of comparative advantages. The Harrod-Domar Model is on the relationship between savings and investment and the role of productivity in capital accumulation. Again the solution for lack of capital accumulation in underdeveloped countries is increasing investment by reverting increased savings to the investment projects, and encouraging technological development. The abundant supply of cheap labour from rural areas and increased investment then help underdeveloped countries uplift the lower level of equilibrium. Also technological developments increase productivity and hence surplus capital. State planning to realize these goals are crucial. This theory understands economic growth as the key to economic development because of trickle down effects. The last theory is from Rostow and called Stages of Economic Development. It is about universal stages a country passes through in economic development. There are five stages in this process and the main stress is on the importance of economic growth since diversification in the economy starts with registering economic growth. In the second stage of transition from traditional to modern economy, the country engages in specialization in several areas and exportation of these goods on which the country has comparative advantages.<sup>23</sup>

A theory Baskaya does not mention is quite similar to Rostow's model of stages. According to the Fisher-Clark Theory of three stages of production, all countries pass through three universal production stages, i.e., primary (raw material production), secondary (industrial production through manufacturing and construction), and tertiary (provision of services, such as education and tourism) stages. According to this model, less-developed countries have the first stage as the dominant mode. Middle-income countries have the second and high income countries the last. However, there is a vertical shift from bottom to top as incomes in a country increase and demand for the upper stage goods arises. As the country shifts to second stage and incomes continue to

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<sup>23</sup> Başkaya, 60-7.

rise, demand for tertiary products increases and this paves the way for the last shift to high-income status.<sup>24</sup>

Another theory that Başkaya skips also stresses the importance of savings, investment, and economic growth in economic development, namely Lewis' Dual Sector Model of Development. According to this theory, in less-developed countries there is a dual economy, i.e. subsistence economy with low productivity, low levels of investment and under-employment, and a modern industrial sector with high incomes and high investment levels located in urban environments. The big size of subsistence economy impedes high savings and hence investment levels. This traps the dual economy into underdevelopment. By alluring this abundant work force into urban areas by offering them jobs in factories, incomes would rise and hence savings. These savings provide more funds for investment. More investment means greater trickle down effects and savings. Eradication of dual economy via these means then develops the country.<sup>25</sup>

Başkaya lists commonalities among the above-mentioned theories. Two of them are quite illuminating about the inspiration they get from Modernization Theory. Firstly, all societies go through same historical stages. This is a universal necessity. Underdevelopment happens in countries that are in the earlier stages of development and they will eventually become developed. Secondly, underdeveloped countries cannot develop on their own because of socio-economic and cultural reasons and the inability to break through their traditional structures. Therefore, industrialized countries should help them and contribute to their development process.<sup>26</sup>

Apart from these two, other commonalities are concerned with how to prime development in these countries. Briefly, these theories understand investment as the engine of development. The lack of enough savings in less-developed countries should be remedied by encouraging savings and foreign assistance. The lower level of

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<sup>24</sup> Virtual Developing Country Project, "Fisher-Clark's Theory of Structural Change," retrieved from <http://www.bized.ac.uk/virtual/dc/copper/theory/th6.htm> ,last accessed 1 April 2006.

<sup>25</sup> Virtual Developing Country Project, "Lewis' Dual Sector Model of Development: The Theory of Trickle Down," retrieved from <http://www.bized.ac.uk/virtual/dc/copper/theory/th8.htm> , last accessed 1 April 2006. See Andre Gunder Frank's criticism of dualism in **Dependent Accumulation and Underdevelopment**, (New York: Monthly Review Press, 1980), 110-2.

<sup>26</sup> Başkaya, 45-6.

equilibrium in these countries should be uplifted by the intervention of state via investment projects, credit schemes, and so forth. Economic growth and economic development are identical concepts due to 'trickle-down' effect. Therefore, the focus shall be on the former and hence industrialization to alleviate poverty and income inequalities. Last but not least, international trade is a win-win situation for the wealth of all nations. In order to register a fast pace of development, less-developed countries should intensify their economic, trade, cultural, and other kinds of relations with the developed world. Thus, it can be argued that the initial development theories were inspired by a comparison of developed and less developed world and inferences from these comparisons. On the economic side of prescriptions, they advised policies to register economic growth and industrialization, and state planning to achieve these goals. Economic growth was inspired by a trickle-down effect of growth on society. Industrialization was inspired by practice of industrialization in some peripheral countries and their relative success in relation to pure raw material exporters during the inter-war years. Lastly, state planning was inspired by Keynesian views about the deficiency of the invisible hand in the free market and the necessity of state planning to remedy this deficiency.<sup>27</sup>

Theorists who opposed these beliefs in linear development in isolation i.e., developmentalism, investigated different aspects of development and global political economy, and several schools of thought consequently emerged, such as Dependency Theory and the WSA.<sup>28</sup> Indeed, the establishment of several schools on the notion of development did not happen in a historical manner i.e., thesis, anti-thesis, and synthesis. For instance, Rostow, who was one of the leading protagonists of the modernist development theory, published his seminal book on economic development *The Stages of Economic Growth: A Non-Communist Manifesto* in 1960, almost two decades after the modernization theory became popular in the 1940s. However, the relatively liberal form of the dependency theory as a reaction to the modernist development approaches (by the same token, to Rostow's prospective study) was popularized by Paul Prebish

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<sup>27</sup> Ibid.

<sup>28</sup> Marxist Dependency theory was first articulated by Paul Baran in 1950s and later on advanced by a few others. For a list of the names see Walter L. Goldfrank, "Paradigm Regained? The Rules of Wallerstein's World-System Method." **Journal of World-System Research**, Vol I. No.2 (Summer/Fall 2000), 164.

and Hans Singer in the 1950s, and it advocated for developing countries a different manner of integration to the world capitalist system than the one advised by modernization theories. This was based on changing not the mode but the content of production, i.e., creating infant industries, nurturing them under heavy protection, and gradual lifting of the latter as they became mature enough to compete with the advanced world. This theory also advocated restrictions on raw material exportation and international agreements to prevent deterioration of terms of trade between developing and developed countries. The aim was to industrialize the country under the purview of the state and protect its economy against the structural dynamics of the capitalist-world economy that reproduced underdevelopment. It was reproduced because of the division of labour between less-developed and developed countries via international exchange of raw materials for manufactured goods. That is why prescriptions of liberal forms of dependency theories differed from those of modernist theories mostly in the benefits of free-trade. The former opposed free-trade because of unequal exchange. Otherwise, its prescriptions regarding the importance of savings, investment, and state policies were similar to modernist development theories. The only major difference between them was that liberal dependency theory took the capitalist world-economy into account in the explanation of underdevelopment. Whether from liberal or Marxian perspectives of the theory, peripheral regions of the world economy were seen as locked into an unequal exchange between them and core countries. The unequal exchange involved provision of raw materials, cheap labour, agricultural products by peripheral regions to core countries, and flow of manufactured goods, capital, and services to these regions from core countries sanctioned by the interest of the latter. Thus, the peripheral countries ‘also serve[d] as the repository of surplus capital, obsolescent technologies, and manufactured goods.’<sup>29</sup>

Later on, the ideas about the unequal exchange via international trade, and other ideas<sup>30</sup> were taken up by Marxist writers, such as Andre Gunder Frank and led to

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<sup>29</sup> Vincent Ferraro, “Dependency Theory: An Introduction,” South Hadley, MA, July 1996, retrieved from <http://www.mtholyoke.edu/acad/intrel/depend.htm>, last accessed 9 January /2006.

<sup>30</sup> Paul Baran’s **Political Economy of Growth** as mentioned by Wallerstein was the inspiration of Gunder Frank’s ‘development of underdevelopment.’ Wallerstein also mentions the name of other Latin American scholars who had provided some of the essential concepts of the WSA such as Arghiri Emmanuel ‘unequal exchange’, Samir Amin ‘accumulation of world capital’, Ruy Mauro Marini ‘sub-

theories of underdevelopment and called for revolutionary and autarkic policies to alter how the peripheral regions of the world were incorporated to the capitalist world economy.<sup>31</sup> Apart from these relatively radical policies, Frank also added that during times of worldwide economic crises and wars, the peripheral regions could weaken their links to the core and develop with their own dynamics. In such circumstances, the state could assume a central role and further reverse the links that cause unequal exchange.<sup>32</sup> However, Frank's analysis was also critical of infant industry protection and import substitution because of their limitations. These limitations mainly stemmed from the fact that the extent of the internal market is limited by the axial division of labour and the relations of production. This means that in practice these policies were devised not as the consequence of a progressive industrialist and government coalition to solve the internal market problem and lower level of equilibrium but because of 'the reaction of bourgeoisie... to their inability to continue producing, investing, and profiting [from their peripheral position in the capitalist world-economy] during the war and depression crisis of international capitalism.'<sup>33</sup>

Another reason behind these policies was the changes within the international division of labour. As core countries shifted their exports from consumer goods to producer goods and technology exports, some of the consumer goods peripheral regions used to import were replaced with the latter ones. This change in the content of exchange was backed up by protected internal market and creation of infant industries in peripheral regions. These factories were usually nothing but replicas of consumer good factories in core regions that were less and less profitable due to market saturation.

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imperialism' (read semi-periphery). See Wallerstein's brief account of the post-1945 period for the intellectual debates regarding 'development' in **The Capitalist World Economy**, 49-54.

<sup>31</sup> Frank's first article on underdevelopment and critique of modernisation theory came out in 1967 in a magazine called *Catalyst*. Andre Gunder Frank, 'Sociology of Underdevelopment and Underdevelopment of Sociology,' *Catalyst*, 1967 quoted in "Andre Gunder Frank: A Tribute" by Colin Leys, presented at a memorial event in Queen Elizabeth House, Oxford, May 12, 2005, retrieved from [http://www.qeh.ox.ac.uk/teaching/agf\\_tribute.pdf](http://www.qeh.ox.ac.uk/teaching/agf_tribute.pdf), 9/01/2006. The late Frank himself explained his intellectual journey regarding his underdevelopment concept and dependency theory on his personal webpage. See World System Development and Underdevelopment link on <http://www.rrojasdatabank.org/agfrank/research.html>, last retrieved 09/01/2006.

<sup>32</sup> Başkaya, 84.

<sup>33</sup> Frank, **Dependent Accumulation and Underdevelopment**, 130.

Moving of those industries to peripheral regions created more and more dependencies on the part of periphery in terms of technology, producer goods, and know-how.<sup>34</sup>

So, what happened to all these theories and prescribed ways of development? The fate of these theories was indeed determined by what had happened to peripheral and semi-peripheral countries in the second half of the 20<sup>th</sup> century. Many of these countries adopted Import Substitution Industrialisation (ISI), which was the liberal prescription by Paul Prebisch and Hans Singer against dependency.<sup>35</sup> Some other countries opted for more autarkic and ‘socialist’ ways of economy and isolation from the world economy. The Soviet Union and its allies could also be deemed in the group of ISI followers as they were aggressively following heavy industrialization policies with central planning in isolation from the ‘free market economies.’ Although they were practicing a relatively different ownership scheme than the so called capitalist states, the mode of production was still capitalist. As Wallerstein put it there was only one world system at that time, and that was capitalist in form.<sup>36</sup> The reason behind such an argument is that in so called socialist countries, the process of capital accumulation was existent and there was separation of producers from the means of production. All the decisions regarding surplus capital was made from the central planning authorities. Although private property was prohibited in these countries, central planners and bureaucratic mechanisms owned these factories in the sense that the labour power had no authority over the production process. Thus, socialist countries exhibited the essential features of capitalist accumulation. Due to the bi-polar international system, for several decades the post-1945 period had accommodated several different practices than the prescriptions of modernist development theories. Many countries in the United Nations were even calling for a new international economic order in the late 1960s and early 1970s to favour developing-country interests vis-à-vis the advanced ones.<sup>37</sup> In

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<sup>34</sup> Ibid.

<sup>35</sup> The two had separately proposed similar solutions to the problems of developing world. Prebisch proposed his ideas for the UN Economic Commission for Latin America and Singer published his ideas in a paper in 1950. For details about the historical origins and rise of ISI, see *ibid*, 128-30.

<sup>36</sup> Immanuel Wallerstein, “The Rise and Further Demise of the World Capitalist System: Concepts for Comparative Analysis,” in **Comparative Studies in Society and History** Vol. 16 No. 4 (1974), 415.

<sup>37</sup> Robert Looney, ‘New International Economic Order,’ in **Routledge Encyclopaedia of International Political Economy**, edited by RBJ Jones (London: Routledge, 1999).

accordance with the increasing practice of protection and industrialization, those were the heydays of the dependency school and theories that advocated state intervention.

Nevertheless, from the mid-1970s, the “advent of globalization” with the help of financial liberalizations and the retreat of the state by deregulations advocated by the laissez faire theorists, and the interventions of the IMF and the WB in the debt crises of the 1980s had gradually discredited the ISI strategies and Keynesian interventionist models among many developing countries. Increasingly, either those institutions forced them to follow the neo-classical treatment for the “ills” of their economies, or they voluntarily adopted the prescriptions. The abandoned prescriptions of the dependency theories and the interventionist models discredited the dependency school among policy makers and academic circles.<sup>38</sup> The advent of globalisation in a way revitalized some of the modernist development notions as the intellectual foundations of both come from the neo-classical assumptions about the comparative advantages and trickle down effects of unequal wealth creation and distribution.

Frank wrote in retrospect where the radical or liberal dependency theory ‘failed’. The first realm, according to him, was their policy advice. The advice of liberal dependency school failed to eliminate dependency and created further and new dependencies. The radical policy advice of ‘delinking from the capitalist world-economy’ and establishment of a socialist system internally also did not help eliminate dependency. According to Frank, this policy proved impossible. Even the socialist countries at that time were integrated to the capitalist world-economy and this was admitted by the top leader of the Soviet Union, Gorbachev. He stated that ‘the world economy is becoming a single organism, outside of which no state can develop normally, regardless of the social system it might belong to or the economic level it has reached’. The second realm where dependency theory failed was ‘what to do once

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<sup>38</sup> Colin Leys states that the scholarly opponents of Marxian dependency theory tried to refute the arguments of theorists such as Gunder Frank and others by various studies that aspired to show how their main propositions such as the necessity of severing the links with the developed world to actually develop, or ‘the cause of development in the core was the underdevelopment in the periphery’ were unfounded. Leys also states that Frank abandoned some of his assumptions about dependency theory and the theory itself.

dependency was severed'. Frank admitted that no person attempted to answer this question under the circumstances where dependency continued unabated.<sup>39</sup>

The WSA emerged in the early 1970s. and differed from dependency theories or modernization theories in the sense that it was not a prescriptive school of thought like the latter. It was more of a framework to understand how the world had been organized politically, economically, and culturally since the 16<sup>th</sup> century. As Chase-Dunn and Grimes put it 'the world-system is all of the economic, political, social, and cultural relations among the people of the earth... it is the whole interactive system, where the whole is greater than the sum of the parts.'<sup>40</sup> The WSA offered different categories, such as core, periphery, and semi-periphery regarding different modes of wealth creation, and provided ways of interactions among the three in this process. Moreover, it provided insights about the preceding periods and showed how the modern world-system broke part with those by capitalist mode of production. While famous dependency theorists such as Frank helped formulate this approach alongside Immanuel Wallerstein and others, later on, the two parted ways over the beginning of the capitalist accumulation. Frank argued that traces of the capitalist accumulation went back as far as 5000 years ago while Wallerstein confined it to the 16<sup>th</sup> century Europe.<sup>41</sup>

From the perspective of development, the reason behind employing the WSA instead of modernization theory or dependency theory, either liberal or Marxian, stems from the way the latter theories direct the student. One common feature among these two theories is that they attribute teleology to development, i.e. reaching a desired stage. Consequently, these theories do more than explanation. They prescribe the 'appropriate' way to development. The prescriptions of respective methods are different but this teleology makes them similar. However, the WSA rejects the linear idea of

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<sup>39</sup> Frank states in his personal website that he and his colleagues were right in arguing that there was dependency and hence development of underdevelopment. He also admits the failures of the dependency school in prescriptions of solutions. For details about his retrospective ideas about dependency school and capitalist world-economy see, "Changes in my view about dependency and capitalism," retrieved from <http://www.rojasdatabank.org/agfrank/research.html#DEPENDENCE>, last accessed 2 April 2006.

<sup>40</sup> Christopher Chase-Dunn and Peter Grimes, "World-System Analysis," **Annual Review of Sociology**, 21 (1995), 389.

<sup>41</sup> For a very first hand account of the emergence and development of the world-systems approach of the Wallerstein and others and Frank's initial contribution and subsequent disagreement over some key points see Andre Gunder Frank, "'Immanuel and Me With-Out Hyphen,'" in **Journal of World-Systems Research**, Vol. 11 No. 2 (2000): 216-31.

development and hence the teleology. It is important to remember that all these approaches take capitalist mode of production as the object of analysis. Nevertheless, the WSA does not take capitalist mode of production as the natural path in the linear development process like the modernization theories or liberal dependency theories. Rather, the WSA understands the capitalist mode of production as the dominant way of incorporating the various parts of the world into this system for more than five centuries. That is why the capitalist mode of production is seen as a world-system with boundaries that has managed to incorporate almost the whole world into this system in this time period. This system is called the capitalist world-economy. Other types of totalities, or mode of production can be mini systems and world-empires both of which disappeared in the course of time.<sup>42</sup> The types of world-economies can be feudal, capitalist and socialist. Wallerstein has repeatedly adumbrated socialist world-economy as the stage capitalism has been evolving into.<sup>43</sup> Yet, the transition from one of these stages to another or the changes within the whole system happens in a dialectical manner according to the WSA. This dialectic manner, unlike the mechanistic view, is not concerned with the formal structures at a particular time. Rather it is concerned with, as Wallerstein puts it, ‘what is the consequence for both the whole and the parts of maintaining or changing a certain structure at that particular point in time, given the totality of particular positions of that moment.’<sup>44</sup> Thus, the WSA provides a dialectical structural explanation at the systemic level and how it is reproduced by the capitalist mode of production. Therefore, adopting the WSA shall help this study transcend any analysis of the DP era within either teleological framework and any judgment of the era in terms of a linear manner and adherence to the prescriptions of developmentalism. Rather, it shall provide the thesis with an insight about the structural opportunities and

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<sup>42</sup> What is meant by totality is the basic unit of analysis where social change is studied. As Goldfrank explains on page 166, ‘mini-systems are tribal economies integrated through reciprocity, sometimes called the *lineage* mode... Mini-systems, then, involve a single division of labour, a single polity, and a single culture.’ World-empires on the other hand are based on tributary system where two or more groups are linked to each other with forcible appropriation of surplus for purposes of ‘protection’ or surviving quite complicated bureaucratic systems such as China, Rome, and Ottoman Empires. The difference between two world-systems, i.e., world economies and world-empires is that the latter is administrated by a single political unit whereas the former is populated by multi-polities. See Goldfrank’s elaboration on these totalities on pages 166-7.

<sup>43</sup> See for instance, Wallerstein, **The Capitalist World Economy** (1978), or **Utopistics: or Historical Choices of the 21st Century**, (New Press, 1998)

<sup>44</sup> Wallerstein, *The Capitalist World Economy*, 54.

limitations during the DP era with reference to the capitalist world-economy. In connection with this, it shall help evaluate how well the opportunities, if any, were used by DP regarding the possibilities of shifting from one region to another.

Regarding the international relations/political economy aspects of the development and structural dynamics of the international, the virtues of the WSA over any other IR theory come from how it reads the emergence and dynamics of the modern state system. It is interesting to see that the virtue of the WSA over IR theories stems from the latter's probable critique of the former. As Goldfrank states, the WSA is criticized by the liberal social sciences because the WSA is claimed to adopt too large a unit of analysis, i.e., the capitalist world-economy. On the other hand, the nation-state as a unit of analysis has dominated many fields of the social sciences and hence the articulation of 'internal' and 'external' factors behind any phenomena.<sup>45</sup> The latter is most evident in IR. The WSA understands capitalism and the modern state system as the obverse sides of the same coin, i.e., capitalist world-economy that emerged in Europe in the 16<sup>th</sup> century and then had continuously incorporated the rest of the globe into its system.<sup>46</sup> The importance of this understanding comes from the fact that many IR theories stick to dichotomies, such as domestic/international, public/private, political/economic. The consequence of these dichotomies is observed as the relative neglect of the latter concepts compared to the former ones in the study of IR and making it 'the study of the international realm of states (public/political power).'<sup>47</sup> Thus, based on the assumption that Turkey is part of the world economy, adopting a framework that tries to explain the modern state system as a whole is better suited to analyse the political economy of the DP era than theories that stick to dichotomies, such

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<sup>45</sup> Goldfrank, 190.

<sup>46</sup> Immanuel Wallerstein, "The Rise and Future Demise of the World Capitalist System: Concepts for Comparative Analysis," 390. See also, Immanuel Wallerstein, "The Interstate Structure of the Modern World-System," in **International Theory: Positivism and Beyond**, edited by Steve Smith, Ken Booth, and Marysia Zalewski (Cambridge: Cambridge University Press, 1996): 87-107.

<sup>47</sup> Donna Lee and David Hudson, "The Old and New Significance of Political Economy in Diplomacy," **Review of International Studies**, 30 (2004), 343-360. Here, Lee and Hudson refer to Steve Smith's concept of 'Rationalism' in IR which comprises Realism, Neo-realism and Neo-liberalism as the prime examples of theories which stick to these dichotomies. For details see, Steve Smith, "The US and the Discipline of IR: Hegemonic Country, Hegemonic Discipline," **International Studies Review**, 4 (2002): 67-85.

as the state versus the market, domestic versus international. In the following section, this framework shall be elaborated.

## **II. The World-Systems Approach: Essential Concepts**

As mentioned before, the WSA tries to understand the modern state system according to one logic. One logic i.e., worldwide capitalist division of labour, production and accumulation, in the face of multiple jurisdictions may seem like contradictory dynamics in the formation and evolution of the modern state system. The WSA's understanding is that the modern state system emerged and evolved by the articulation of these two dynamics. The result of this articulation is that the network of relationships among multiple jurisdictions is patterned like the network of relationships among accumulation and production zones and vice versa.<sup>48</sup> As Wallerstein puts it, 'capitalism and a world-economy (single division of labour but multiple polities and cultures) are the obverse sides of the same coin' and one does not necessarily cause the other. They are the characteristics of the indivisible phenomenon, capitalist world-economy.<sup>49</sup> Consequently, the WSA is concerned with the features of core, periphery, and semi-periphery as the network of both the accumulation and production process and relations among political jurisdictions. The unequal exchange between the core and periphery and how the semi-periphery functions as a buffer zone in between have been explained by the approach to better reflect patterns and features of the development of the system. The WSA also dwells on possibilities of shifts in a country's status in the system. These possibilities are defined in terms of the three regions and countries shifting from one to another. In the following paragraphs, the components of the division of labour in the capitalist world economy shall be explained in greater detail.

The foremost component of the forces and relations of the capitalist mode of production is capital accumulation. As Chase-Dunn and Grimes put it, capitalism is the accumulation of economic surplus by means of production and sale of commodities in the marketplace. Drawing from Marx's ideas on the concept, Hopkins explains the procedure in two parts. The first is concerned with production and distribution of

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<sup>48</sup> Hopkins, 24.

<sup>49</sup> Wallerstein, 391.

commodities at greater value than the value of inputs, including replenishing of the labour force, the difference between them being the surplus value. The second part is concerned with realization of this surplus value by selling these commodities in the markets using money, and adding fixed capital onto the existing with this realized portion.<sup>50</sup> What the WSA has contributed to this essential component of capitalism are two. First of all, the WSA understands capital accumulation as a world process, not parallel national ones. Also it is a process with a goal of ‘ceaseless accumulation.’<sup>51</sup> Secondly, appropriation of surplus value is not just about the relationship between owners of the capital and labourers anywhere. It also happens between core and periphery in the form of geographical expansion and on-going primitive accumulation.<sup>52</sup> While the primitive accumulation, i.e., ‘separation of producers from their means of production’<sup>53</sup> in the periphery, helps produce and reproduce semi-proletarian workers (their sources of income is not dependent only on wage labour hence their wages are relatively lower than the proletariat workers of the core whose only mean of survival is based on wage labour)<sup>54</sup>, the expansion provides further surpluses to the capitalists as non-wage means of subsistence keeps wage levels lower in the periphery and increases volume of accumulation for the owners of capital in both periphery and core regions due to lower production costs and unequal exchange via international trade.

The concepts of the core and periphery are about the relationship between different production zones and also the accompanying political jurisdictions. Core and periphery relations are mutually constituted and neither can exist without the other. ‘It is a relational concept describing a relational reality.’<sup>55</sup> Core regions are involved in capital intensive production whereas peripheries in labour intensive production. That is why commodity chains are formed as peripheral regions providing raw and/or labour intensive materials and core regions capital intensive manufactured goods. This was

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<sup>50</sup> Hopkins, 26.

<sup>51</sup> Chase-Dunn and Grimes, 393.

<sup>52</sup> Goldfrank, 170.

<sup>53</sup> Karl Marx, “Die sogenannte ursprüngliche Akkumulation,” **Marx, Karl/Engels, Friedrich: Werke**. Vol. 23 Berlin (1974), quoted in Claudia Von Werlhof, “Globalization and Permanent Process of Primitive Accumulation: The Example of the MIA,” **Journal of World-System Research**, Vol. 4 No. 3 (2000), 731.

<sup>54</sup> This difference between the semi-proletariat and proletariat and how it helps capitalist world-economy reproduce is explained at length by Wallerstein in **The Capitalist World-Economy**, chapter 6, 119-31.

<sup>55</sup> Goldfrank, 168.

evident in for instance ‘slave-cultivated cotton becoming Manchester textiles.’ Hence, textile production a core activity and cotton provision a peripheral one. Nevertheless, expansion and evolution of the capitalist world economy has shifted the location of division of labour. That is why textile production in the 21<sup>st</sup> century is now a peripheral process whereas development of computer software is deemed as a major core process.<sup>56</sup> Yet, as Wallerstein states, core countries export wheat as well as electronic equipment.<sup>57</sup> Therefore, the important thing is not what is produced and exchanged but rather how it is produced, i.e. ‘capital intensity and skill level of the production process.’<sup>58</sup> Hence, ‘... rather observe the wage patterns and margins of profit of particular products at particular moments of time to understand who does what in the system.’<sup>59</sup> Nevertheless, how it is exchanged is also crucial for the capitalist world-economy. Unequal exchange is the main way of reproducing core-periphery relations and hence capitalist world-economy. It happens through price inequalities between peripheral and core countries. Because of political and military suppression of wages in the periphery and also the semi-proletarian status of the working class, prices of commodities in those countries are cheaper than the price levels in the core. When these regions engage in trade, it results in ‘a net transfer of value from the periphery to the core.’ While this exchange happens through the market mechanisms, that very market

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<sup>56</sup> The reasons for this shift can be manifold. As the scale of a core production process in a core country expands, this affects the price levels and leads to a decrease in profits. Consequently, producers look for low-cost production places. Another factor in decreasing profits is the increasing benefits given to the labour force to prevent escalation of class conflicts. Also the changes in technology may shift obsolete industries in to peripheral regions. The level of protection in peripheral countries is another factor in shifting the place of production to dodge trade barriers. Also the systemic crises in the capitalist world-economy may force the producers to look for new outlets and hence shift some core industries into the periphery. All these reasons and consequent shifts in production localities help lift peripheral countries to the semi-peripheral status. For instance, the software industry is quite developed in India, which is a semi-peripheral country. Also the electronic industry in Turkey, i.e. production of TV sets and stereos are an important contributor to the economy, not to mention the textile industry which is the third biggest in the world in terms of production capacity.

<sup>57</sup> Wallerstein, **The Capitalist World-Economy**, 71.

<sup>58</sup> Goldfrank, 169. It should be born in mind that the skill level in some sectors of the economy in semi-peripheral countries can be high according to world standards. Yet, this does not elevate the country to the core status. One should bear in mind that these countries contain some core-like and some periphery-like production. Here the wage levels are more informative about the status of a country that contains such core industries.

<sup>59</sup> Wallerstein, **The Capitalist World-Economy**, 71. The price levels of like products produced in different regions can tell the differences between a core country and a semi-peripheral country. Here, a well known brand name can make difference in terms of added value. The textile sector in Italy is a dying one. Yet, the brand names created during the hey-days of textile production in that country can still make a difference at the price levels of for instance United Colours of Benetton, although probably its products are made in Romania, Turkey, or China.

mechanism is backed by the legitimate military power of the states in peripheral and core regions.<sup>60</sup>

There is one recent example of the role of legitimate military power in imposing market mechanisms in Turkish history. The military coup in 1980 was done to restore order and stability in a seemingly chaotic environment. Nevertheless, a closer look at the Turkish economy by that time reveals the role of military in imposing such a market mechanism. The fact that Turkish economy was suffering high-wage problem due to its Import Substitution Strategy (ISS), which necessitated high wage levels to increase demand for the domestically produced products, led to a radical change in the government strategy and it tried to adopt export-led growth. In order to be competitive in exports, one thing needed to be done was to suppress the wage levels. However, the populist political culture and the chaotic political environment were too unsuitable to make such a radical change. A few months after this strategy was adopted, the military overthrew the government, shut down all the political parties and worker unions, and assigned the mastermind of the earlier plans to the deputy prime-minister post. Only after this radical intervention, Turkey started to ‘open’ its economy and increase its export earnings. Turkey could adopt ISS with the encouragement of the core countries and the institutions which promote their interests, such as the IMF, OECD, and the World Bank. Once the strategy turned out to be unsustainable, the same groups advised Turkey to change its strategy and adopt export-led growth since the early 1970s. It took a decade and a military coup to bring back ‘unfettered market economy’ to Turkey.<sup>61</sup>

The above example may seem like a historical case from a semi-peripheral country. Instead of giving an example of the role of legitimate military power of states from a core and a peripheral country in imposing market mechanisms and hence unequal exchange, a theoretical argument shall be made here to account for the role of

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<sup>60</sup> Chase-Dunn and Grimes, 396. The explanation in footnote 59 is a good example of this unequal exchange. When Turkey exports its textile products, most of these products are bought at lower prices than their retail prices in the advanced world. Thus, textile companies in these countries appropriate the surplus.

<sup>61</sup> For the role of military coups and interventions over capital accumulation process in Turkey, see Gülaıp, **Kapitalizm, Devlet ve Sınıflar**, chapter 2, 23-44. See also Korkut Boratav, **Türkiye İktisat Tarihi 1908-2002**, 9th edition. (Ankara: İmge, 2005), 147-148 for the arguments presented in this paragraph.

state and its military power in formation and imposition of market mechanism. Reviewing the debate about the relative autonomy of the state vis-à-vis classes in the society, Haldun Gulalp argues that the dichotomy of political and economic is the underlying reason why some scholars argue that the state retains a relative autonomy against capitalist class. As these scholars accept this analytical distinction as reality, they can attribute autonomy to the state as it is concerned with the stuff of politics, not markets that is argued to function best when it is left alone. Starting with Karl Marx, many scholars have tried to show that this dichotomy was created to hide the dynamics behind market mechanisms that were at the heart of capitalist mode of production. A close look at the market mechanism reveals the fact that production and exploitation intersect there. To elucidate the point, the owners of the means of production, i.e., capital, factories, and so on, and people who are divorced from their means of production, i.e. labour force, come face to face in the market and they make a deal to produce. Once this deal is struck, capital accumulation can happen as the owners of the means of production appropriate the surplus value. Although this exchange of labour force for wages can seem as a free and equal deal, it is based on exploitation in the sense that the price paid to the labourer is always less than the price of a commodity sold on the market he produces. The role of the state enters the picture here. As the regulator of the public domain, the state lays down the rules that (re)produce capital accumulation, enforce deals between capitalists and the labourers, protect private property, and police capital accumulation. Thus, Gulalp offers a two-pillar system of capital accumulation where the state stands in the public domain of it whereas capitalists in the private. In this two-pillar system, not all state actions have to be in the interest of some factions within the capitalist class. However, such a deviation always falls short of breaking the confines of division of labour between the state and capitalists in capitalist accumulation process. Hence, the legitimate military power of the state, whether in the core or periphery, is the ultimate lever against any disruption to the capital accumulation process, even against the government in power if it fails to solve the crisis in the capital accumulation model as it happened in Turkey several times.<sup>62</sup>

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<sup>62</sup> The arguments in this paragraph are drawn from Gulalp, **Kapitalizm, Devlet ve Sınıflar**, chapter 3, 45-

Coming back to the concept of unequal exchange, ‘exchange between raw materials and manufacturers is [not] *per se* unequal and unfavourable to the producers of the former’ since international terms of trade between these niches vary in the course of time. Besides it is not true that ‘raw materials production *per se* accounts for low wages and unequal exchange.’ It is rather low-wage levels in the periphery (more than the skill levels) that leads to unequal exchange. As Frank conveys from Emmanuel, ‘it is not the product that defines the producer, but the producer that defines the product... ‘dirty’ [low-wage] underdeveloped producers immediately ‘dirty’ whatever they touch. The particular international division of labour changes, but the principle remains the same.’<sup>63</sup> Therefore, unequal exchange takes on significance within the capitalist world-economy and the axial division of labour. Once the former incorporates the periphery into the latter with low-wage (to a lesser extent low-skill) export sectors, this articulation reproduces itself through the unequal exchange despite the fact that the types of products produced in the periphery and the terms of trade between peripheral and core goods change in the course of time.<sup>64</sup>

Although the core and periphery concepts of the WSA were drawn from the earlier dependency theories, the concept of the semi-periphery was first introduced by this approach. The semi-periphery as argued by Wallerstein is one of the three reasons why the capitalist world-economy has thrived and survived since its emergence. He gives ideological and military factors as the two major reasons for its survival. The former refers to the ruling classes’ belief that their interests are dependent on the very survival of the whole system. The military factors, on the other hand, refer to the enormous capacities of the dominant core states vis-à-vis any opposition to the system

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68 and Karl Marx, **Capital**, Vol. 1 chapter 26, accessed from <http://www.marxists.org/archive/marx/works/1867-c1/ch26.htm> , last retrieved 20 March 2006.

<sup>63</sup> Frank, **Dependent Accumulation and Underdevelopment**, 103-5.

<sup>64</sup> Emmanuel argues that high-wage levels in the USA and white British Dominions forced the investors to invest in capital-intensive production to keep the production costs down. This policy in the long run helped these countries to shift their status up. Arrighi Emmanuel, **The Unequal Exchange** (Paris, 1969), 161-2, quoted in Frank, 103. On the magnitude of the unequal exchange between the periphery and the core, Samir Amin made a calculation based on international trade figures in 1966. Amin estimated the net transfer from the periphery to the core according to differences in productivity and wage levels and assumed other factors constant. For the sectors with same productivity levels such as petroleum, mining, plantation, and so forth, the wage levels led to a net transfer to the core of 8 billion US \$ in 1996. That is to say, if these goods were produced in the core, they would be sold at higher market prices. See Frank, 107-8 for details of Amin’s calculations.

from the periphery or contenders from the core for the world dominion. The third yet the most important reason for Wallerstein lies in the very existence of the semi-periphery. As Wallerstein puts it, a system that is based on exploitation of a specific region by another owes its survival to the existence of a mid-way house between the two regions. For Wallerstein, the virtue of having a three layered state/economic system is not so much economic as it is political. The reason is that the existence of the semi-periphery as both exploiter and exploited decreases the chances of posing unified opposition to the major exploiters, i.e., core states. Thus, it prevents the possibility of a perfectly polarized system which would disintegrate given the level of exploitation.<sup>65</sup> On the more economic side of the coin, the semi-periphery is seen as ‘the intermediate between core and periphery in terms of the capital intensity, skill, and wage levels of their production processes...characterized by “combined” development, the coexistence of some core-like and some peripheral production, with their trade flowing simultaneously in two directions as they export little-processed materials to the core and simple manufactures to the periphery.’<sup>66</sup>

The above synopsis is mostly about articulation of the forces and relations of production and accumulation process in the capitalist world-economy. It is worthwhile to look at some aspects of the articulation of multi-polity system of the capitalist world-economy to provide a better framework to analyze the DP era in Turkey. The distinctive thing about this world-system from other systems is the nature of territorial administration. Whereas the world-empires are based on administration of the whole system, the world-economies according to Wallerstein are based on their multi-polities. In terms of mode of production, world-economies can be capitalist or feudal, whereas world-empires are based on tributary system, such as the Ottoman or Roman Empires. Although in world-economies there is no empire in the sense that it governs the whole territory of the world-system, there are hegemonic sequences among core powers. The concept refers to the superiority of a core power over its competitors to the extent that it could manipulate the system to its own advantage. According to the WSA, there have been three hegemonic powers since the 16<sup>th</sup> century, the Netherlands (the United

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<sup>65</sup> Wallerstein, “The Rise and the Future Demise,” 404-5.

<sup>66</sup> Goldfrank, 169. See also Wallerstein, **The Capitalist World-Economy**, 69-72 for a broader explanation about the features of semi-periphery in the world-economy.

Provinces), the UK, and the USA. The hegemony of this type is a temporal one which means that the hegemonic power falls short of incorporating the entire world-system into its jurisdiction and suffices with policing it. The main reasons are concerned with lessening of competitive advantage of the hegemonic power over other core states with the help of technologic and economic advances.<sup>67</sup>

It is not only the core states that are in competition for greater market niches and politico-military power. It is also the case for all states from other layers of the world-system. Thus, the WSA understands it as a competitive system that persistently falls short of a world empire. While, there is no empire to dominate the whole system politically, there is imperialism that ‘refers to the domination of weak peripheral regions (whether they are states, colonies, or neither) by strong core states.’ This domination may be promoted by class forces to manipulate the world market in their favour. The manipulation or attempts to it is initiated through state mechanisms, such as use of force, diplomacy, or legislations that have far reaching effects, such as the Corn Laws or Navigation Acts of the British Hegemony, or the post WWII economic institutions of the US hegemony.<sup>68</sup> State mechanisms ‘enforce and reinforce mechanisms of unequal exchange,’ hence systemic capital accumulation.<sup>69</sup> It is interesting to see that class interests may inhibit the emergence of a strong state under some circumstances. Wallerstein gives the example of Polish nobility in the 16<sup>th</sup> and 17<sup>th</sup> century who were benefiting from open trade with core regions of Europe. Because of this profitable exchange of primary products of theirs with industrial products of the core, they opposed strengthening of the state machinery under the interest of local commercial bourgeoisie who would pose political threat to landowners’ interest in a more mercantilist economy that could consolidate the interests of the former. Such a weak state mechanism also consolidates the power of core states vis-à-vis the weak ones. Consequent wars, interventions, and subversion over periphery become something like a norm. Thus, unequal exchange is consolidated by both division of labour in the world-

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<sup>67</sup> *ibid*, 172.

<sup>68</sup> For details of Britain’s rise to the hegemony status and these legislations see E. Hobsbawm, **Industry and Empire** (Harmonsworth: Penguin Books, 1969).

<sup>69</sup> *ibid*, 169.

economy and different state mechanisms and their relative strengths over each other in the core, semi-periphery, and periphery.<sup>70</sup>

The possibilities for states to change their status within the capitalist world-economy are the most akin things to what one can call ‘development’ or ‘progress.’<sup>71</sup> Broadly speaking, the locations of economic activities keep changing in the world-economy. This has to do with changes in the technology, ecology, climate, and consequent socio-economic changes. Also important behind changes in the positions of countries are the cycles and secular trends in the capitalist world-economy. These cycles and trends shall be explained in more detail in the following paragraphs. Yet, it should be born in mind that any change in the status of a country is at the expense of some others, i.e., competitors from the same league or the upper one, as ‘the system functions by the virtue of having unequal core and peripheral regions.’<sup>72</sup>

The cyclical rhythms of the capitalist world-economy are one of the constitutive elements of it.<sup>73</sup> These cycles are those of contractions and expansions. The latter refers to a period when the total world supply of production is less than the total world demand. Contraction occurs when the situation is reverse. Wallerstein states that the downward cycles can only be resolved when a political reallocation of world income happens to expand worldwide demand.<sup>74</sup> Because the whole market is both an integrating factor among diverse political units and behind the reach of a single jurisdiction, and hence anarchic, the cycles are ‘basic to the operation of capitalism.’ When contractions start, the individual responses of producers worsen the situation as they increase their output to offset the declining level of profits.<sup>75</sup> According to Wallerstein, at moments of contractions in the capitalist world-economy, there is more pressure for reallocation of roles and rewards than at moments of expansion. This is

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<sup>70</sup> See Wallerstein, “Three Paths of National Development in 16th Century Europe,” in **The Capitalist World-Economy**, 40-2.

<sup>71</sup> For Wallerstein’s critique of stagiest accounts of historical change see “The Rise and Future Demise,” especially the first few pages.

<sup>72</sup> Wallerstein, **The Capitalist**, 61. When Wallerstein speaks of these possibilities, he puts these two concepts in quotation marks to denote his denial of the development as conceived by mechanistic understanding.

<sup>73</sup> Goldfrank, 173 provides how these cycles have been effective in Wallerstein’s periodization of the evolution of the capitalist world-economy.

<sup>74</sup> Wallerstein, **The Capitalist**, 61-2.

<sup>75</sup> Goldfrank, 174.

mainly because the moments of contraction end up in absolute declines for some and relative rewards for others whereas expansionary moments offer absolute rewards for all no matter how unequal the distribution is. Indeed, inequality of rewards is the central motivating force in the operation of the capitalist world-economy. Therefore, the result of reallocation of roles and rewards tend to be changing roles within the three layered system. Coming back to what is stated before, ‘it is not possible [then] theoretically for all states to “develop” simultaneously. The so-called “widening gap” is not an anomaly but a continuing basic mechanism of the operation of the world-economy.’<sup>76</sup>

Regarding the time span of cycles, there are varying views. Chase-Dunn and Grimes make a review of this literature on cycles in the capitalist world-economy that have been defined. They start with noting that short-term cycles are endemic to agrarian societies as climate conditions may affect their agricultural output, not to mention the cycle of seasons which determine the plantation and harvest periods. However, the long term fluctuations of output in the capitalist world-economy are the object of analysis in the cycles literature. There are various cycles with different time spans, such as Juglar Cycles (6-10 years), Kuznets Cycles (20-25 years), and Kondratieff Cycles (40-60 years). The underlying reason behind all these cycles is the saturation of market for a newly introduced good that sells well. When such a product is introduced, consumption and related employment increase. As the market for such goods becomes saturated, sales drop, incomes contract, and workers are laid off. Once the existing stocks are finished and a new technology is introduced, expansion occurs again. All these cycles happen together and the existence of a longer one does not rule out the possibility of shorter ones happening. In longer time-spans, the effects of cycle are more widespread over the economy than the shorter ones. Consequently, the resolution of the crisis comes into existence in more dramatic changes, such as decisive technological inventions, scramble for natural resources, change in the business structure of the economy (cartels), or even wars.<sup>77</sup>

The secular trends in the capitalist world-economy have to do with structural consolidation of the system all over the globe since the 16<sup>th</sup> century. The first trend is

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<sup>76</sup> Wallerstein., **The Capitalist**, 73.

<sup>77</sup> For details of these cycles and recent research on the issue see Chase-Dunn and Grimes, 403-11.

the capitalization of world agriculture which has commodified almost the whole usable land and sea resources of the globe and at the same time proletarianized and urbanized masses. The second secular trend is the development of technology which has ‘maximized the ability to transform the resources of the earth into usable commodities at ‘reasonable’ cost levels.’ Consistent with the unequal distribution of rewards, industrialization has meant greater profit levels for the upper strata as well as an amount that is sufficient ‘to sustain and appease the world’s middle strata.’ Because of the established core-periphery relations, the extension of industrialization to peripheral areas, which has been envisioned by Wallerstein in the long run, does not mean any change in the status of periphery as core regions will continue to develop ‘ever newer, specialized activities.’ The last secular trend is the process of bureaucratization, i.e., ‘the strengthening of all organizational structures vis-à-vis both individuals and groups. States, economic corporations, cultural institutions are examples of strengthened organizations within the capitalist world-economy. On the other hand, these secular trends have been preparing the demise of the system in three ways. According to Wallerstein, urbanization has created a more educated and mobilized mass that can organize against power structures easily. The industrialization of the world has diminished the justifications behind the unequal distribution of rewards and also offset the economic differences among states by advances in military equipment, foremost among them is the invention and proliferation of nuclear weapons. Last but not least, bureaucratization has created organizations that are ever more resistant to change, and this resistance curtails decision-makers’ ability ‘to enforce politico-economic will.’<sup>78</sup>

While the essential concepts of the WSA for analysis of any phenomenon are as explained above, Wallerstein speaks of the possibilities of shifts within the capitalist world-economy, i.e., status change for a country. To start with, status changes do not happen from periphery to core. Rather, some relatively high-wage high-skill sectors in the peripheral country emerge and provide the home market with their products whereas the rest of the internal market is still dependent on the core-periphery relation. Also, among the different regions, one should not expect a kind of similarity in terms of the ability to change the status. Some are in worse position than others. Wallerstein argues

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<sup>78</sup> Ibid, 62-3.

that only a minority of peripheral countries ‘can fit into an expanding world market or conquer part of a contracting one at any given time.’ He speaks of three different strategies a state can follow to change its status from peripheral to semi-peripheral: the strategy of seizing the chance, the strategy of promotion by invitation, and the strategy of self-reliance.<sup>79</sup>

The strategy of seizing the chance is about building a protected industrial base for the home market on an embryonic industrial sector in a peripheral country that suffers balance of payments problems due to a world-market contraction and consequent deterioration in terms of trade between the core and periphery. This necessitates state intervention in the market in the form of subsidies, tariff walls, or establishment of state-run industries. The reason why it is called seizing the chance is because the opposition from the core and internal interest groups to such a move is limited due to their weakened position during contraction. The problems with such an approach in the medium and long run are manifold. To begin with, it creates technological dependence as the new industries need machines and spare parts for them and also manufactured primary materials for the final product that are usually imported from core countries. Moreover, such a move to ISS necessitates a type of alliance between different interest groups, such as the industrial bourgeoisie and urban workers regarding wage levels to sustain supply and demand for substituted goods. However, in the course of time, this alliance tends to break down in favour of more pressure on wage levels to increase the profits and to provide concessions to the agricultural and other traditional sectors that are already under high pressure because of the ISS. As a solution, the ISS is abandoned in the sense that production for the internal market goes to external markets. However, production of such goods may be abandoned then by the core countries because of technological developments.<sup>80</sup>

The strategy of promotion by invitation usually happens more in moments of expansion than in contraction. The medium through which it happens is foreign direct investment (FDI) and so called Multinational Corporations (MNCs). The collaboration

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<sup>79</sup> Ibid, 76.

<sup>80</sup> This paragraph is drawn on ibid, 76-9. Wallerstein provides the digest of the strategy from dependency scholars such as Dos Santos, Frank, and Marini.

between the core and the peripheral country is essential in realizing such an investment. The reasons behind FDI can be manifold. The limitations in the home market in terms of demand, legislation, and so forth, and limitations imposed by ISS, such as tariff walls encourage MNCs to invest in overseas markets. Also the lower cost production possibilities in the peripheral country make it more profitable for the MNCs to produce there and export to other markets. The strategy of self-reliance as obvious from the phrase aims to cut the links with the outside world and hence dependency. Nevertheless, in praxis, there are hardships as a country cannot produce everything on its own given the need for high level of know-how and capital to produce new goods. That is why, in the long run, such a strategy may create further dependencies as created in the ISS method but in far greater quantities which locks the country deeper into the swings of the capitalist world-economy.<sup>81</sup>

The fortunes of a semi-peripheral country for status change in the capitalist world-economy seem a bit more promising than that of a peripheral one although both can pursue similar strategies for a status change. This has to do with the midway status of semi-peripheral countries within the antinomies of the system, i.e., core and periphery, bourgeoisie and proletariat. At times of economic contractions, semi-peripheral countries can expand their control of the home market and access to peripheral markets at the expense of core countries. The reason for this, as put forward by Wallerstein, is that during economic downturns, it is the core states which compete for semi-peripheral markets unlike the semi-peripheral competition for the core markets at times of economic expansion. Thus, they are relatively more powerful than core states regarding bargaining the necessary deals to set the capitalist expansion back on track. At those times, some semi-peripheral countries can make it to the core at the expense of some core and semi-peripheral countries as the shift is about capturing a greater share from a contracting surplus. Nevertheless, other considerations, such as class conflicts within the semi-periphery as a whole, and in each semi-peripheral

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<sup>81</sup> Wallerstein provides few examples of two strategies pursued by some countries on pages 80-2.

country affect the fortunes of each semi-peripheral country regarding an upper move in the hierarchic division of labour.<sup>82</sup>

### **III. Capital Accumulation and Axial Division of Labour in relation to Political Economy and Development**

The essential concepts of the WSA and possibilities of shifts within the three-layered capitalist world-economy are explained above. Before the following chapter turns to the DP era in order to analyze its political economy and development efforts, this last part associates two essential concepts of the WSA, capital accumulation and axial division of labour with political economy and development. The two essential things that shall be analyzed in DP era are the capital accumulation process in Turkey and Turkey's place in the axial division of labour in the capitalist world-economy. This is done for two reasons. First of all, as mentioned before, in the capitalist world-economy, the state provides the necessary public arrangements to (re)produce capital accumulation within its territory. The parameters of accumulation are set by internal class constellations and how a state joins the axial division of labour, i.e., the core, semi-periphery, periphery.<sup>83</sup> Secondly, the axial division of labour and Turkey's status there at the beginning of the DP era provides both the determinants behind the model of capital accumulation process, and the opportunities or limitations of status shifts with reference to cycles in the capitalist world-economy, and hence what one can call 'development.' Therefore, an attempt shall be made in the next chapter to define where Turkey was before the start of DP era within this axial division of labour and what kind of class constellations were present in Turkey in order to show how they preconditioned a specific model of capital accumulation and what kind of opportunities or limitations the capitalist world-economy offered Turkey.

The argument that political economy of the state is the manifestation of these two parameters does include three levels of analysis. At the top level, there is the capital accumulation process that is to be continued by private and public realms. This division of labour between the state and capitalists are at the heart of the system. Then, there is

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<sup>82</sup> Wallerstein dwells on the possibilities of semi-peripheral countries jumping to the core status in Chapter 5 of *The Capitalist*, 95-118.

<sup>83</sup> Güllalp, 67.

the second level, the model of capital accumulation, which reflects the specific constellation of different classes and the position of the state in the axial division of labour. And at the last level of abstraction political conflicts are analyzed bearing in mind these two levels.<sup>84</sup>

So how do these levels affect each other and culminate in what one can call the political economy of a ruling party or an era? The top level of analysis provides the general framework of the capitalist accumulation process. The state's responsibility in this framework is the assurance of the continuity of capital accumulation within the country. This includes protection of private property (can be read as legalization of separation of producers from their means of production), enforcement of deals, providing security and infrastructure, and intervening in the economy when the accumulation process is in jeopardy. Indeed, the modalities of state action can vary more according to the second level where a specific accumulation model is defined according to class constellations inside and axial division of labour in the world economy. More specifically, state action gets more detailed at the last level where political conflicts determine the essence of the state in terms of political regime, government, and ideological components. Also it is this level where one can observe the patterns of what the state does specifically to help reproduce the model of capital accumulation.<sup>85</sup>

In a peripheral country a subsistence economy may exist with a capitalist mode of production. Also there may be quite strong factions over other factions within the capitalist class, such as the commercial bourgeoisie that thrive on the role of the country in the axial division of labour. Thus, there are class constellations that correspond to different modes of production. However, as the country is articulated to the capitalist world-economy, the existence of a subsistence economy does not make it a non-capitalist country. Therefore, the state assumes its role in the public realm to (re)produce capital accumulation. Existence of different classes or different factions within the capitalist class, and relations between them help political and ideological relations vary. It is the last level mentioned above where these variations are expressed

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<sup>84</sup> Ibid, 77.

<sup>85</sup> Ibid, 83.

tangibly. As one model of capital accumulation turns out to be unsustainable due to changes in class constellations and trends in the capitalist world-economy, a crisis in economy and the political arena follows. Thus, peripheral countries are much more open to sudden and radical regime changes than core countries. Bearing in mind the theoretical framework laid down in this chapter, the next chapter now turns to the DP era to analyze its political economy and development efforts of Turkey in that period.

## **Chapter 2**

### **The DP Era**

Two legacies of the Ottoman Empire, i.e., the tributary system and articulation to the capitalist world economy as periphery to a large extent determined various capital accumulation models during the one party years and the DP era. Therefore, this chapter starts with the analysis of how the Ottoman Empire was articulated to the European capitalist world-economy. As the Ottoman Empire was articulated to the capitalist world-economy, a new class emerged in the Ottoman society, a commercial bourgeoisie class that was dominated by non-Muslim subjects of the Empire. On the other hand, attempts to engage in capitalist agricultural production or confiscate the agricultural surplus by local notables on the imperial land was thwarted to some extent by the mid-19<sup>th</sup> century thanks to political benefits of this articulation. Therefore, the Empire could not function as a full-fledged pure raw material exporter as much as it did as an importer of core goods and services. During the last two decades of the Empire, the ethnic and religious character of the commercial bourgeoisie changed due to the policies of the ruling party under the constitutional monarchy. Once the Republic was founded, majority of the Turkish population still dealt with subsistence agriculture. The industrial sector of the economy was too insignificant to be taken into account in the face of cost and quality advantages of core goods over domestic ones that were usually produced with archaic methods and in small-size enterprises. The non-Muslim commercial bourgeoisie was almost liquidated and Turkish subjects of the Empire were ready to continue the agricultural production for domestic and international markets, which locked the empire into the peripheral status. In fact, the period preceded the DP era is the history of the consolidation of the nascent Turkish bourgeoisie under the guidance of the state in the context of peripheral articulation to the capitalist world-economy. At the end of WWII, the bourgeoisie was ready to end this guided consolidation in the face of an expansionist cycle in the capitalist world-economy under the hegemony of the US with its ideological components, such as democracy, free trade, and specialization in comparative advantages. During the DP era, different groups in the Turkish bourgeoisie operated in a relatively free environment until limitations in DP' policy tools to

‘develop the economy’ without extensive state intervention arose due to the peripheral articulation of the economy to the capitalist world-economy. After that, DP not only intervened in the economy but also invested in it to sustain economic growth. However, the populist policies targeting agriculture and the policy measures that disturbed trade and industrial bourgeoisie paved the way to the military intervention in 1960 that institutionalized the embryonic ISI strategies already in practice. In the following sections, the above synopsis shall be elaborated according to the framework of capital accumulation model introduced in Chapter 1.

### **I. The Ottoman Legacy: Articulation as Periphery**

As mentioned before, the Ottoman Empire was based on a tributary system where peasants worked on the imperial land and paid taxes in return. This system functioned through a complex bureaucratic system scattered all around the empire and it was a world-empire economy as defined in the World-Systems Approach. The agricultural surplus in the form of taxes was redistributed to the imperial bureaucracy. Therefore, subsistence economy, controlled production for the imperial markets, and controlled trade with the outside capitalist world-economy were at the heart of the system. There was no imperative for capital accumulation as this would disrupt the class structure of the imperial economy. This structure could be summarized as bureaucrats, peasantry to each of whom a sizable land was allocated, and small manufacturers who worked under the control of guilds and produced for the domestic markets. There was also a privileged class of traders who were given imperial rights to import luxury goods mostly for the bureaucratic class. In this context, it can be argued that the Ottoman imperial economy was based on a closed tributary system with little incentive to accumulate capital by traders, large landowners, and manufacturers.<sup>86</sup>

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<sup>86</sup> Çağlar Keyder argues that the attempts to change this system to a system based on cash-crop production, external trade, and wage labour in agriculture, and hence a system that could accumulate capital by local governors and notables in the 18<sup>th</sup> century were successful to some extent (appropriation of tributary surplus) which culminated with an agreement between Sultan and local notables in 1807 that legalized the de facto situation. However after this date, further attempts of local notables to undermine the tributary system and transition to proletarianization of peasants for capitalist production were thwarted and the tributary surplus were redirected to the imperial bureaucracy with the help of re-centralization policies and foreign powers in the early 19<sup>th</sup> century. One example of this recentralisation is the British help to pacify Kavalalı Mehmet Ali Pasha, the governor of Egypt, former Rumeli notable. Consequently,

However, during the late Ottoman years, the economy was progressively articulated to the capitalist world-economy mainly by political events. These events were the political challenges by local notables and governors to the central authority, and the interest of major European powers in vast territories and markets of the Empire and minority issues there. Although the articulation was realized through increasing trade volume with European countries, this was made possible by domestic and international political concessions by the Empire.<sup>87</sup> By the mid 19<sup>th</sup> century, the Ottoman Empire was almost included in the European state system in return for several concessions. These were concerned with extension of capitulation rights to all European states and protection of minorities in the Empire in return for political support from European states for the integrity of the Empire. Thanks to this political articulation, the economic articulation increased via trade. The capitulation rights lowered trade barriers, abolished import licences and quotas, and ushered in a new era of peripheralisation of the Ottoman Empire in the capitalist world-economy.<sup>88</sup> Trade was mainly done via non-Muslim Ottomans as they were granted many rights, exempted from many regulations, and elevated to a privileged status in the Empire as the foreign traders and companies. Under these circumstances, the non-Muslim commercial bourgeoisie gained the prime position in this new emerging class. They were mostly interested in external trade, comprador-like people. The Turkish minority in the commercial bourgeoisie

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by the mid-19<sup>th</sup> century, the tributary system was quite strong again with regard to existence of peasantry paying fixed taxes in return for the usage rights of the imperial land. For details of the world-empire economy of the Ottoman Empire and attempts to decentralization see, Çağlar Keyder, **Türkiye’de Devlet ve Sınıflar**, 10<sup>th</sup> edition (İstanbul: İletişim, 2004), 15-29.

<sup>87</sup> As the capitalist world-economy was going through the industrial revolution that started in the UK in the late 18<sup>th</sup> century, mercantilism and scramble for markets and raw materials increased among the European powers. For details of the rise of UK to the hegemony in the capitalist world-economy and the ensuing free trade regime imposed by it see Giovanni Arrighi, *Uzun Yirminci Yüzyıl: Para, Güç ve Çağımızın Kökenleri*, (İmge: İstanbul, 2000): 83-99. For a more detailed analysis of the UK rising to the hegemony and the role of Industrial Revolution in it, see Eric Hobsbawm, **Industry and Empire**, Chapters 2, 3, and 5.

<sup>88</sup> Starting with the trade agreement with the United Kingdom in 1838, the Empire signed a few trade agreements with other European powers, such as France, German states, Scandinavian countries, several Italian states. For details of these agreements and effects of them over Muslim producers see, Kazgan, **Tanzimattan 21. Yüzyıla**, 19-20. After these agreements, the volume of exports and imports increased by 5.3 and 5.5 per cent respectively in average between 1841 and 1854. See Kazgan, 22.

involved more with domestic trade and they were dependent on their non-Muslim contemporaries in many instances.<sup>89</sup>

On the other hand, the hardest hit group in society due to this articulation were Muslim traders and manufacturers who used to thrive on import concessions and production for the local market respectively. The simple manufacturers for domestic markets were shut down as they could not compete with European exports. For instance, the English textiles flooded the Ottoman market between the mid-1820s and 1850, and local producers could not compete with these imports.<sup>90</sup> Progressively, the Ottoman economy evolved into a peripheral region of the capitalist world-economy. One interesting feature of this peripheralisation was that the Ottoman economy could not function as a full-fledged raw material and agricultural goods provider to the core regions of Europe. Instead, it was mainly a vast market for European goods and services.<sup>91</sup> To give an example about the lack of infrastructure and disarticulation of production and consumption in Anatolia, the big trade hubs of the Empire such as İstanbul and İzmir imported wheat from Europe and the United States as the Anatolian wheat was 75 per cent more expensive than wheat imported from New York. When WWI curtailed the wheat import from these regions, these metropolises procured wheat from Anatolia despite all deficiencies in transportation infrastructure. After this event, production for local markets gained more importance and many producers thrived on this business.<sup>92</sup>

In order to afford foreign goods and services, and finance military, social, and judicial reforms in imperial structures, the Ottoman Empire started to borrow from

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<sup>89</sup> Ibid, 36, 42-45, Boratav, **Türkiye İktisat Tarihi**, 23. In fact capitulation rights were given long before the 19<sup>th</sup> century. However, the volume of trade between Europe and the Ottoman Empire did not increase significantly before the 19<sup>th</sup> century. The main reasons behind this were the relative strength of the Empire vis-à-vis European powers and the content of the trade goods, which were not as sophisticated as the content after the Industrial Revolution. See Kazgan, *Tanzimattan 21. Yüzyıla Türkiye Ekonomisi*, 15.

<sup>90</sup> Ibid, 48. Fikret Başkaya, **Paradigmaların İflası: Resmi İdeolojinin Eleştirisine Giriş**, 6<sup>th</sup> edition (Doz: İstanbul, 1997), 188.

<sup>91</sup> Ibid, 45-48. Keyder attributes this phenomenon to the Ottoman Empire being a world-empire economy. As this was based on a strict division of labour between peasantry, bureaucracy, manufacturers for the domestic economy and some privileged importers of luxury goods, any deviation to exportation of agricultural goods and raw materials would disrupt the fabric of Ottoman society. Thus, it had taken some time to dilute this strict system once trade concessions were given to foreign merchants, starting in 1839 after the suppression of Kavalalı Mehmet Ali Pasha.

<sup>92</sup> Boratav, **Türkiye İktisat Tarihi**, 28.

European powers with the Crimean War in 1854. Consecutive loans and failure to repay them resulted in more concessions. These concessions resulted in further penetration to the imperial economy of foreign political and economic control. Alongside these loans, foreign investment flowed to the Ottoman territories mostly for infrastructural projects, such as railways and docks. Foreign investments in infrastructure further integrated Ottoman raw materials and agricultural goods to the world markets. All these developments helped the Empire further integrate with the capitalist world economy by the end of the 19<sup>th</sup> century.<sup>93</sup>

In fact, the reformation in the imperial structures was quite important in laying down the foundations of a modern capitalist state. Although these reforms were made mostly by the demand of the foreign powers, they established some very important components of a capitalist economy, such as private property, a secular judiciary system alongside the Sheri'a system, and curbing the authority of the Sultan by constitutional monarchy.<sup>94</sup> The first experience of constitutional monarchy did not last very long. Nevertheless, in the early years of the 20<sup>th</sup> century, proclamation of the second constitutional monarchy and consecutive governments of Turkish nationalism, Committee of Union and Progress (CUP), further laid the foundations of a quasi national economy. For instance, to support sizable landowners who produced for the local market, CUP established cooperative societies and passed laws, which benefited Turkish producers. In the context of shrinking supply due to WWI conditions, these producers benefited high price levels and accumulated sizable amounts of surplus. For the simple manufacturers and light industry, capitulations on trade tariffs and quotas were abolished during the war unilaterally, which benefited domestic producers. Also two laws were passed to promote industrialization and prohibit unionization and strikes. All these legislations can be interpreted as supporting capitalist development in the imperial economy. However, it should be born in mind that the industrial sector in the

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<sup>93</sup> The arguments in this paragraph draw on Keyder, 55-70. The Crimean war ended with the Paris Peace Agreement in 1856, which officially included the Empire in the European Concert. Before the agreement, the Ottoman Empire declared a new reform package that was concerned with the rights of minorities and foreign investors in the Empire. This package formalized the sway of non-Muslim commercial bourgeoisie and foreign investors in the Ottoman Economy. See Kazgan, 23 for details. For details of how foreign loans deepened the articulation as periphery, see Kazgan, 22-31.

<sup>94</sup> For details of these reform decades see, Tevfik Çavdar, **Türkiye'nin Demokrasi Tarihi, 1839-1950**, 3rd edition (Ankara: İmge, 2004), Chapters I-II

early 20<sup>th</sup> century was quite small in size and its activities were mostly concerned with processing of agricultural goods. The demand for high-skilled goods of the time was supplied from abroad. The Ottoman economy was articulated to the world division of labour as a peripheral region.<sup>95</sup>

Keyder argues that there were two distinctive things about the legacy of the Ottoman economy. The first one was the existence of a large number of small peasants who were given the right to use the imperial land. The second one was the extradition of the majority of non-Muslim bourgeoisie.<sup>96</sup> The first phenomenon prevented an oligarchic land ownership and hence extensive cash-crop production for exports by employment of proletarianized peasantry. Instead, an intermediary class, commercial bourgeoisie, emerged, which brought the agricultural products of these peasants to domestic and international markets and also imported European core goods to the Ottoman markets in collaboration with core producers. This was a complex class as small peasantry was scattered all around the empire and consequently there were many sub-intermediary groups to not only bring agricultural goods to the final markets and export locations but also direct and fund production according to the market needs.<sup>97</sup>

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<sup>95</sup> Boratav, 29-37. Regarding policies of creating a national economy around Turkish population, Stefanos Yerasimos provides further evidence of CUP actions. For instance, several banks with Muslim capital were established in early 1910s. Also the government urged foreign companies to employ Muslims instead of Greek and Armenian subjects. Regarding cooperative societies, it was not confined to agricultural producers. For small manufacturers and light industry such cooperative societies were established and populated by Muslim bourgeoisie. These societies retained virtual monopolies over several niches in the economy. The absolute control of the government over transportation infrastructure facilitated preferential treatment of Muslim tradesmen from big cities. WWI also deteriorated the non-Muslim commercial bourgeoisies' relatively strong position (save the Jewish minority) in the Empire as these minority groups were under the protection of Great Britain, France, and Russia which were the Allied Powers against Central Powers including the Ottoman Empire. For details see, Stefanos Yerasimos, **Az gelişmişlik Sürecinde Türkiye Vol.3: 1. Dünya Savaşından 1971'e**, 16-8. Sina Akşin also provides an account of the aspirations of CUP to create a national bourgeoisie based on Turkish Muslims. See Akşin, 56-8 for details. Another account is provided by Kazgan regarding the national cause in the economy in the late Ottoman years and continuation of these policies in the early republic years. See Kazgan, 39-56.

<sup>96</sup> Keyder, 9-11.

<sup>97</sup> Ibid, 32. Keyder argues that the emergence of a class that thrived on short term opportunities in the market economy would play a decisive role in Turkish political culture especially starting with the DP era. Başkaya claims that production for the market did not exceed a quarter of the whole agricultural output. Most of the producers were subsistence farmers. See Başkaya, **Paradigmanın İflası**, 189-200. This figure should not be interpreted as the inexistence of capitalism in Turkish agriculture. Although, wage-labour and production for the market did not dominate the sector, this sector was articulated to domestic and international markets and surplus extraction was well established through the market relations and share-cropping.

The second phenomenon delayed the consolidation of a capitalist state in the periphery that would guarantee the interests of non-Muslim commercial bourgeoisie.

Neither the non-Muslim bourgeoisie nor the Ottoman bureaucracy saw such a future in the context of late Ottoman years. Had the WWI not happened - not to mention its several causes, such as ethnic and nationalistic cleavages fuelled by imperialistic competition over the Eastern question-, those non-Muslim commercial bourgeoisie would have hastened the process of integration to the capitalist world economy and designing a capital accumulation model according to class constellations and articulation to capitalist world economy. However, the existence of small peasantry and scattered ownership of agrarian land would still be a strong factor behind any model of capital accumulation if the bureaucracy was to depend on the tributary that would come from peasantry.<sup>98</sup> As the Muslims were minority in the commercial bourgeoisie and relatively weaker as well as in the insignificant industrial sector, the founders of the Turkish republic could exert more authority over the questions of socio-economic change in the context of a power vacuum created by the extradition and population exchanges during WWI and the War of Independence.<sup>99</sup>

The above synopsis regarding the Ottoman legacy shall be recapped with regard to two parameters, i.e., the capital accumulation model and articulation to the world division of labour before the next section starts. As demonstrated above, articulation to the capitalist world-economy was imposed on the Ottoman Empire by political events. Inclusion of the Empire in to the European balance of power system came with a cost of opening up the Ottoman world-empire to the dynamics of European world-capitalist economy. Simultaneously, the non-Muslim minorities in the Empire were granted exclusive rights and privileges, which elevated them to a strong position in commercial bourgeoisie. Therefore, it can be argued that the model of capital accumulation was based on extraction of surplus from exportation of raw materials and

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<sup>98</sup> For such a scenario see Keyder, 106-110. It is interesting to see that *aşar* was abolished in 1925 although the decision to abolish it was adopted in the National Economic Congress in 1923.

<sup>99</sup> A figure on the ethnic configuration of the manufacturing industry in the Ottoman Empire reveals the fact that only 15 per cent of the manufacturing companies were owned by Turkish people. The share of Turks in the total employment was the same amount, 15 per cent. See Kazgan, **Tanzimattan 21. Yüzyıla**, Table I, 52.

primary products and importation of core products that could be sold dearly in domestic markets.

The primary beneficiaries of this system were the core countries and their non-Muslim Ottoman agents in the Empire. This model was imposed by political events and facilitated by ensuing capitulations that opened up the imperial economy to the European capitalist world-economy. After the second constitutional monarchy, aspirations for a national economy based on Turkish bourgeoisie became stronger than ever. The main reason behind this aspiration was the ethnic and religious character of the Ottoman bourgeoisie that was persistently used by European powers to undermine the stability and integrity of the Empire. With the help of WWI, the CUP could pursue policies to replace that bourgeoisie by a national and loyal one as the foreign powers that imposed the above-mentioned economic articulation of the Ottoman Empire to the European capitalist world-economy were at war against the Empire. The conditions that forced the articulation of the Ottoman economy to the capitalist world-economy, i.e. concessions for the integrity of the Empire, were no longer existent once the Great War started. In this relatively suitable context, the CUP policies laid down the foundations of a Turkish bourgeoisie that thrived on preferential treatment from the government and war conditions.

Before turning to the explanation of the Republican years, the class status of the bureaucracy should be clarified. As mentioned before, the bureaucracy in the Ottoman Empire was the executive organ of the tributary system. It fulfilled different functions, such as education, defence, taxation, judiciary, and so forth. There were many status groups within the bureaucracy. Inclusion in the bureaucracy's various status groups was through the dynasty's will. Bureaucracy differed from the rest of the population in the sense that it was dependent on the surplus it collected from the society via taxation. It was a class in the world-empire where classes were defined not according to relations of production (who owns the means of production and who does not) and the emergence of classes through the market mechanisms, but through the decisions made by the dynasty. Although the bureaucracy's appropriation of the surplus was akin to appropriation of surplus by the owners of capital, the former appropriation

was for the sake of sustaining the bureaucracy and hence the dynasty instead of accumulation of capital.<sup>100</sup> What happened during the articulation of the Ottoman Empire to the European state system and the capitalist world-economy was progressive destruction of this tributary system and inclusion of market mechanisms in to the economy. In this context, the bureaucracy tried to preserve its class status in the society via different policies in the face of increasing concessions for the integrity of the Empire, which further destroyed the tributary system. After the second constitutional monarchy, the rise of the CUP to power and its policies to support Muslim traders and producers against the non-Muslim bourgeoisie attest to the acceptance on the part of the bureaucracy that the Ottoman tributary system was no longer the prime way of sustaining the bureaucracy's status in the country. They were leaning towards the establishment of a modern nation-state where the bureaucracy could continue its status in the society through not a tributary system but a modern capitalist state. This idea was realized by the foundation of the Republic and abolishment of tributary institutions, such as *aşar* (tithe), and legalization of land ownership.<sup>101</sup> In the following paragraphs, bureaucracy is used to denote this group of people. They did not constitute a class in a peripheral capitalist economy but they founded the Turkish state. Until 1946, they were unrivalled in the political realm but they further laid down the foundations of a modern nation state, and accommodated the domestic class constellations in designation of any capital accumulation model. Therefore, in the following paragraphs, the concepts of state and the establishment are used to denote the bureaucracy that is explained in this paragraph, to prevent confusion about the class status of the bureaucracy in Turkish society during the Republican years with regard to the market mechanisms.

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<sup>100</sup> Keyder notes that a small part of the surplus was used for sustaining the economic activity, such as investment in transportation and water network, and so forth. Rest of it was used to feed the bureaucracy and the dynasty. For details of the nature of bureaucracy during the Ottoman Empire see Keyder, 39-41. For the views of Weberian and Marxian approaches on classes in capitalism and pre-capitalism see Gülalp, **Kapitalizm, Sınıflar ve Devlet**, 17-22.

<sup>101</sup> Keyder argues that there was conflict within the bureaucracy over how to sustain the Empire and their status in the society. The reformist faction in the bureaucracy came from the ranks of diplomats, the military and other organs of the state that were reformed according to Western standards. The conservative faction was concentrated around the dynasty and the sultan. The end of the first constitutional monarchy tilted the balance to the conservatives. However, with the second constitutional monarchy, reformist faction regained its power. For details of the bureaucracy in 19<sup>th</sup> and 20<sup>th</sup> century see, Keyder, chapters 2, and 3.

## II. Early Republican Years: Consolidation of the Nascent Turkish Bourgeoisie

The extradition of great numbers of non-Muslim bourgeois by the end of the War of Independence changed the class constellations of the young Turkish republic quite significantly.<sup>102</sup> The assets of the non-Muslim bourgeois were either sold at very cheap prices or expropriated by the remaining local population. This was something akin to primitive accumulation and enriched Muslims, especially big-land owners and the commercial bourgeoisie in Anatolia.<sup>103</sup> During the War of Independence, the Turkish bourgeoisie in Istanbul did not support the nationalistic movement as much as the Anatolian one.<sup>104</sup> Nevertheless, once the Greek armies were defeated and the Allied Powers left İstanbul, they rushed to include themselves in to the political and economic restructuring of the Republic and sought close relations with the Ankara government.<sup>105</sup> A few months before the republic was officially proclaimed, an economic congress was held in İzmir and the İstanbul bourgeoisie attended this congress with their newly established 'National Union of Turkish Commerce'. Other classes that were represented in this congress were a public workers union which was under the guidance of the

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<sup>102</sup> For these figures see Keyder, 99. See also Keyder, 111-112 for the change in the demographic structure from the late Ottoman to early republic years.

<sup>103</sup> See Keyder, 115-6 for details. Rozaliyev estimates that by the end of 1920s, half of the arable land was owned by big-land owners and mid-size farmers. They constituted less than 30 per cent of the population in the agriculture sector. The figures given by Rozaliyev about the ownership structure of arable land before the start of WWI indicate that the structure at the end of the 1920s was the legacy of that former period with one difference. By the end of 1920, this ownership structure was legalized by a new civil code and non-Muslim ownership was almost eliminated. Rozaliyev, **Türkiye'de Kapitalizmin Gelişme Özellikleri: 1923-1960**, (Ankara: Onur, 1978), 23, quoted in Başkaya, **Paradigmanın İflası**, 191.

<sup>104</sup> Başkaya argues that small subsistence farmers did not support the nationalistic movement as much as the Anatolian bourgeoisie. Nevertheless, severe punishments against 'traitors' and forceful appropriations included them into this movement. According to Başkaya, the reason behind the bourgeoisie's support mostly stemmed from the fact that international bargaining over Anatolia, i.e., foundation of Armenian and Greek states would mean eradication of their de facto supremacy over the land and trade networks. Also the stipulation of the Sèvres Agreement brought back the capitulation rights and eradicated all the measures and institutions that favoured Turkish bourgeoisie (Kazgan, **Tanzimattan 21. Yüzyıla**, 44-5). For the class support behind the national movement see Başkaya's section 'Milli Mücadelenin Niteliği,' in **Paradigmanın İflası**, 39-74. Yerasimos also mentions such a class structure behind the national movement. For detailed explanation of this alliance between the bureaucracy and the Anatolian bourgeoisie see Yerasimos, 25-52. For a similar interpretation, see Keyder, 114-5. Both scholars and Keyder argue that as the bureaucracy owed its strong status in the Ottoman society to the existence of the state, the main motivation behind the bureaucracy's activities of national liberation was the survival of the state and their status in society. Once they ensured the survival, they continued the reform activities in the late Ottoman years towards Westernization, secularization, and further integration to the capitalist world-economy (See Keyder, 121-4 for this continuity).

<sup>105</sup> Yerasimos, 74-5.

Istanbul bourgeoisie, and big-land owners and the commercial bourgeoisie from Anatolia. At the end of this congress, a national economy pact was adopted which advised promotion of private entrepreneurship, establishment and protection of national manufacturers for domestic consumption goods, establishment of national banks for these aims, abolition of *aşar* and promotion of agricultural production for domestic markets, incentives for domestic and foreign entrepreneurs to invest in Turkey, and a relatively open trade regime.<sup>106</sup> This pact was designed to create an economy that would continue to be articulated to the capitalist world-economy. It was open to foreign investors given the condition that they operated on a fair and equal basis to Turkish investors and society at large unlike the late Ottoman years. It was also designed to support Turkish land and commercial bourgeoisie that constituted the most important group in the society alongside the founding cadres of the republic.<sup>107</sup>

The international context and domestic class constellations forced the founders of the republic to endorse such recommendations. The ongoing Lausanne Conference witnessed some doubts on the part of the Allied Powers of Turkey leaning towards a communist state similar to Russia. This would mean disruption of lucrative trade and investment relations of the European powers with Turkey. The congress was partly held to disperse such doubts and it sent a strong message that Turkey would continue to be a 'benign' part of the capitalist world economy.<sup>108</sup> Besides, the trade regime of the young republic was sanctioned by the Lausanne Conference as the final agreement stipulated the preservation of the tariffs at a relatively lower level and prohibited any bans on exports and imports. These stipulations were to last for 5 years and they prevented any attempts to establish a mercantilist economy to attempt to shift to a semi-peripheral

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<sup>106</sup> Korkut Boratav, "İktisat Tarihi 1908-1980," in **Çağdaş Türkiye 1908-1980**, 314. On the abolition of *aşar* Boratav argues that the abolition of *aşar*, which constituted 22 per cent of the budget revenue in 1924, further commercialized agricultural production in Turkey. The main reason behind this was the officers or local notables who were charged with collection of this tax in the form of agricultural product gained almost 99 per cent of this revenue. Once this tax was abolished, the surplus production of the peasantry was marketed again by these agents to the domestic and international markets. This meant improvement in the financial condition of the peasantry and continuity of profits for the local agents. See 319-20 for details and some statistical figures of this re-allocation.

<sup>107</sup> The congress called for 8 delegates from each city and 3 of them were to come from farmers (actually big-land owners), and the rest would come from small manufacturers, traders, employees from banks or companies, and workers. See Başkaya, 200-1 for details.

<sup>108</sup> Baskın Oran, "Kurtuluş Yılları 1919-1923," in **Türk Dış Politikası**, 107, 218.

status.<sup>109</sup> Nevertheless, it was in the interest of the Turkish commercial bourgeoisie and big-land owners to preserve an open trade regime as they could thrive on the existent articulation of Turkey to the world division of labour. There were great opportunities of profit from exports and imports for these classes.<sup>110</sup>

This model of capital accumulation lasted until the Great Depression of 1929. The crisis in the capitalist world economy and the expiry of the Lausanne trade regime allowed a suitable international context to modify the model. Before turning to the details of the new model in the aftermath of the Great Depression and the class constellations behind it, a brief balance sheet of the years of 1923-29 shall be given. To begin with, Turkey exhibited a classical example of a peripheral country in this era in terms of its export and import composition. The exports were mainly composed of agricultural products, such as tobacco, raisin, cotton, fig, wool, opium, and egg.<sup>111</sup> During the 1920s, tobacco constituted approximately 35 per cent of the whole exports. 32 per cent of the exports were provided by dried fruit, and the rest was provided by some other agricultural products. On the other hand, imports were composed of various goods ranging from lemon to flour, from textiles to iron and steel. The share of exports in Gross National Product (GNP) was around 14 per cent and the share of imports in GNP was around 15-20 per cent.<sup>112</sup> In terms of domestic manufacturing industry, the small processing industries, such as leather, textiles, and food industry retained its insignificant portion in the country's economy.<sup>113</sup> For both agriculture and small processing industries, this period was more of a restoration period in peace conditions

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<sup>109</sup> Boratav, "İktisat Tarihi," 313-4.

<sup>110</sup> Boratav gives some figures on the degree of protectionism under the Lausanne trade regime. It was 12.9 per cent. Once this trade regime expired and the Great Depression started, the new tariff walls raised this degree to 45.7 per cent. Under the former circumstances Boratav argues that the commercial bourgeoisie accumulated capital not because of high profit rates that could be registered under a protected economy but because of the high volume of imports. The average level of imports to the GNP between 1923 and 1929 was the highest in the history of the Republic in the following half century. For details see Boratav, "İktisat Tarihi," 314, 316, and 321.

<sup>111</sup> Boratav, *Türkiye İktisat Tarihi*, 50.

<sup>112</sup> Kazgan, *Tanzimattan 21 Yüzyıla*, 63-4. GNP refers to total output by the nationals of a country at home and abroad. Goods and services produced by foreigners in the country are not included in GNP.

<sup>113</sup> Başkaya gives an interesting statistical figure that proves the fact that domestic textile industry was not enough to supply the domestic markets. They were more of a manufacturing industry. Between 1923 and 1930, imports of intermediary goods for textile sector such as cotton fabric, thread, and wool fabric constituted 38 per cent of the whole imports of Turkey. See Başkaya, 205. The share of industrial sector in GNP was around 10 per cent during 1920s. See Kazgan, *Tanzimattan 21. Yüzyıla*, 64.

after the devastation of WWI and the War of Independence. The average capital accumulation ratio to the GNP was 9.1 per cent, and the average growth rate of the GNP per capita was 8.6 per cent during this period.<sup>114</sup>

The promotion of domestic and foreign investment in this period was quite significant and sometimes it reached levels that could be interpreted as nepotism. The Lausanne trade regime prohibited differential taxation on foreign and domestic goods. However, it allowed creation of monopolies regarding several goods and services. In those areas, franchise rights were given to joint ventures that were established by domestic and foreign investors, or to some domestic companies. In joint ventures, capital was usually provided by foreigners and domestic partners sought preferential treatment from the capital. As mentioned in the introduction of this dissertation, the Aferists could accumulate significant volumes of capital under the franchise rights of several monopolies. For instance, the monopoly over sugar beet factories and franchising of this monopoly to private entrepreneurs led to the establishment of two factories in Anatolia. Some of the investors in these factories were from the ruling party. Once production in these factories was less profitable than importing sugar, they resorted to imports and still benefited from the monopoly rights and high sugar prices.<sup>115</sup>

Other policies also supported private industries. These were mostly concerned with tax exemptions, cheap raw material provision to these industries, and preferential treatment to domestic manufacturers in government tenders, and discounts in transportation for these industries. These policies were codified in the 1927 law of Promotion of Industry. Before that, The Industry and Mining Bank was established in 1925. Management of several state-owned factories from the late Ottoman times were transferred to this Bank in order to arrange selling of their shares to private investors.

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<sup>114</sup> Boratav, **Türkiye İktisat Tarihi**, 50-1, Yerasimos, 115-6. Boratav quotes Keyder's figure of agricultural exports in this period. Keyder argues that it was around 20 per cent of the whole agricultural production.

<sup>115</sup> Ibid, 47. For details of foreign investment and joint ventures in this period see Keyder, 130-1, Boratav, **Türkiye İktisat Tarihi**, 42-3. Between 1920 and 1930 there were 201 companies established in Turkey and 66 of them were joint ventures. The share of foreign capital in the total investment was around 45 per cent. See İzzettin Onder, "Kapitalist İlişkiler Bağlamında ve Türkiye'de Devletin Yeri ve İşlevi," in **Küresel Düzen: Birikim, Devlet ve Sınıflar**, 267.

Despite all these policies and regulations, industrial sector did not change its fabric significantly in this era. They were mostly concerned with manufacturing of consumptions goods and processing of raw materials and animals. Most of them were small factories with few employees. The energy issue was usually solved within the factories. The nationwide energy infrastructure was almost inexistent. Despite all these drawbacks, the number of companies in industrial sector increased by 30 per cent between 1921 and 1927.<sup>116</sup>

### III. The Great Depression: A Change in the Model

This period ended with a crisis in the world economy, which had severe repercussions on Turkish economy. The deterioration of terms of trade between primary and industrial goods had caused several crises in Turkish economy before the Great Depression.<sup>117</sup> As the exports were mainly based on agricultural products and subsidized by government and foreign credits, and the imports on credit schemes from the government and national banks, the Great Depression and the ensuing decrease in the volume of credits hit the engine of the economy, i.e., trade and agriculture irreversibly.<sup>118</sup> Many companies dealing with trade went bankrupt.<sup>119</sup> Farmers could not repay their loans as the prices hit the bottom levels and further credit from private and public banks was cut. The expiration of the Lausanne trade regulations, the severe international conditions that devastated not only peripheral but also core regions, and increased power of the establishment over dominant factions in the Turkish bourgeoisie,

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<sup>116</sup> For detailed account of Turkish industry in this period, see Başkaya, 205-9.

<sup>117</sup> Keyder, 133. Kazgan notes that more than 50 per cent of the GNP was provided by the agriculture sector in the 1920s. The archaic methods in production and high dependence of the yield on climate conditions led to fluctuations in output up to 40 per cent annually. See Kazgan, **Tanzimattan 21.Yüzyıla**, 64.

<sup>118</sup> Although there was not an oligarchic land ownership in the Ottoman Empire, local notables could expand their lands due to extradition of non-Muslims and soil improvement. A considerable amount of land was opened to agriculture during the early republican years and big-land owners benefited from this reform the most. Also the credit schemes to agriculture and imports for mechanization of agriculture mostly favoured big-land owners as they could give better guarantees than the small scale farmers for the repayment of the agricultural loans. For details of the role of credit in agriculture modernization, i.e. mechanization, and how these credit schemes favoured big-land owners, see Yerasimos, 86-8. Regarding the role government credits and allocation of monopolies to private 'entrepreneurs,' Yerasimos provides an interesting account of favouritism and consequent surplus appropriation for these 'fortunate entrepreneurs. See Yerasimos, 94-7.

<sup>119</sup> The prospect of a tariff increase due to the expiry of the liberal trade regime made the imports soar in 1929. However, traders could not sell their goods because of the economic depression.

such as the commercial and landowning bourgeoisie after the crisis provided a very suitable condition for the state to take extra-ordinary measures to alleviate the crisis. Nevertheless, several protectionist policies adopted for this aim became institutionalized and diversified into direct state intervention in the economy in the first half of the 1930s and ushered in a new capital accumulation model that would last until the end of WWII.

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The class constellations behind this model did not differ from the previous model. The main reason behind the model change was the crisis in capitalist world-economy that lasted for more than a decade and was followed by WWII. The Great Depression created a very suitable international environment for what Wallerstein called 'seizing the chance.' As the main factions in the capitalist class, such as the commercial and landowning bourgeoisie suffered drastically from the crisis, they could not oppose any modalities of state intervention that would restore the balance in macroeconomic indicators. However, the initial response of raising the trade barriers and the 1927 law of industry would provide a very suitable condition for commercial bourgeoisie to establish domestic factories to substitute major consumption goods imports, such as sugar, flour, and textiles with domestically produced goods. Nevertheless, the continuing relative weakness of commercial bourgeoisie and big-land owners prevented any seizure of this chance offered by the capitalist world-economy. Rather, it would be mostly seized by the existing domestic manufacturers, some members of the commercial bourgeoisie, and of course the state that would resort to domestic manufacturing of these essential goods.

Between late 1929 and 1932, the state sufficed with protective measures to balance the trade deficit, exchange rates, and the budget. The attempts between these years proved the fact that if it was left to the market and private entrepreneurs, the

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<sup>120</sup> It should be noted that in the 1920s Turkish Republic had no seignorage rights and TL was floating against the Sterling. The liberal exchange regime allowed many national and foreign banks to secure credits from abroad and give them to domestic producers and traders at a higher interest rate. The flow of foreign capital from such sources was quite significant. This sustained a trade deficit throughout the 1920s. See Kazgan, *Tanzimattan 21. Yüzyıla*, 63. Once the great depression started, the state established the Central Bank, abandoned the floating currency, raised trade barriers, and regulated the interest rates, which aimed to prevent arbitrage and speculation over differential interest rates. These policies provided the state with the necessary trade surplus to service the Ottoman debts starting with 1932. See *ibid*, 64-6.

recession in the country and world-economy would not allow any dynamism that was akin to that of direct state intervention, and would further deteriorate the well-being of any class concerned. Under these circumstances, the state took initiative and established factories that would substitute some of these imported consumption goods, especially sugar and flour, and textile related intermediary goods with domestically produced ones.<sup>121</sup> However, the main state investment focused on mining, metallurgy, chemistry, and wood-pulp industries. These investments would provide domestic manufacturers with intermediary goods that were not dependent on the dynamics of the world-markets and foreign currency reserves. Also increasing public investment meant greater opportunities for private sub-contractors in construction of those factories, and for complimentary industries to the public factories. In this investment context, private entrepreneurs could also accumulate sizable amounts of capital alongside the public sector.<sup>122</sup>

The shrinking volumes of external trade diverted some of the commercial bourgeoisie to more lucrative sectors of the economy, namely domestic manufacturing.

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<sup>121</sup> Yahya Tezel argues that between these years, the state tried to promote private and foreign direct investment in various ways. For this aim, in 1930 a plan was devised to promote domestic textile industry but it did not receive the due response from the Turkish bourgeoisie. After that several meetings were arranged with Americans in 1930 and 1931 to allure American capital to Turkey. Nevertheless, they failed. After these events, the establishment was convinced that it was time to bring in state investment into economy to register economic growth and allay the effects of the Great Depression. Tezel notes that after the failures in alluring foreign direct investment from the core countries, such as the US and France in the context of the Great Depression, Turkey resorted to Soviet Union and Italy where the economy was a command-one. The meeting with Soviet officials bore fruit and both technical and financial assistance were secured to implement a state investment plan. Nevertheless, the plan was prepared with American technical assistance. Finally, in April 1934, the investment plan was put into practice. For details see, Yahya Tezel, "1934 Sanayi Programı ve Türkiye'de 'İktisadi Devletçilik'in Tarihindeki Yeri," *Görüş*, No.12 (1993). Retrieved from Tezel's personal webpage at <http://www.geocities.com/ystezel/articles/tusiad.html> , last accessed 23 May 2006. It should be born in mind that these plans were concerned with investment in the selected industries and they did not constitute a full-fledged development plan like the ones started in the 1960s. Thus, it can be argued that these were actually industrial development plans. See footnote 129 for the content of the plans in the 1930s.

<sup>122</sup> Boratav, *Türkiye İktisat Tarihi*, 64-5. Keyder gives some meaningful statistical figures for this period. At the end of 1939, the manufacturing industry doubled its production volume and a quarter of this volume was produced by the state owned companies. The rest was provided by private companies. See Keyder, 154-5. Some of Boratav's figures support Keyder. The average profit rate of private companies in the average GNP of the period was 5.2 per cent. These companies from which Boratav and Keyder give these figures are the ones that benefited from the promotion of industry law. See Boratav, *Türkiye İktisat Tarihi*, 73 for telling figures about the volume of capital these firms accumulated. The average annual investment volume between 1933 and 1939 was 27 million TL, a third of it made by private sector. The rest was made by the state. (Figures taken from Başkaya, *Paradigmanın İflası*,223)

Also the weak industrialists could thrive significantly in a protectionist context as their domestically produced goods would be protected vis-à-vis foreign ones. Domestic manufacturers would also benefit from public sector investment as these were mostly concerned with intermediate goods that could be used in consumption goods industries. As domestic firms could benefit from the law that promoted industrialization, many domestic manufacturers were established quickly. The strict controls over foreign exchange and trade regime raised the importance of the promotion law as it allowed investors to dodge such regulations for the sake of industrial production. Regarding the trade regime, free trade was substituted with clearing and barter agreements.<sup>123</sup> Import controls and these agreements allowed the country to have trade surplus for most of the time in this period. Again, benefits in controlled trade were mostly allocated to big trade companies and industrial sector that were in close-knitted relations with the establishment.<sup>124</sup>

Price controls over agriculture, extensive taxation over goods, and suppression of labour rights and wages further benefited the capital accumulation process for the

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<sup>123</sup> These barter agreements with European powers institutionalized Turkey's peripheral position in the capitalist world-economy by the mid 1930s. The first clearing agreement was made with France in 1932 (Kazgan, **Tanzimattan 21. Yüzyıla**, 65). The increasing core-periphery relation between Germany and Turkey disturbed some Turkish and British politicians to the extent that the contract for the construction of the first iron and steel factory was given to a British company to lessen dependence on Germany (German bid was cheaper than the British one. The supervision of the construction was given to a German company). A striking statistical figure of this core-periphery relation comes from export and import figures. 50 per cent of Turkey's total exports were to Germany (mainly chromium and agricultural goods) and 45 per cent of Turkey's total imports came from Germany (manufactured goods, capital goods, arms, and other core goods). Although Germany paid slightly higher prices for Turkish exports, its exports to Turkey were priced above world prices. Starting with mid-1930s, these clearing and barter agreements were extended to France and Britain. For details of these agreements with Germany, see İlhan Üzgel, "Batı Avrupa ile ilişkiler," in **Türk Dış Politikası**, 272-3 (Britain), 300, 304-5 for Germany.

<sup>124</sup> Keyder, 142-5. Keyder provides a striking account of this relationship especially around İş Bankası and its share holding in quite a few companies in Turkey. See Keyder, 148-9. Yerasimos argues that the industrialization in this period was made at the expense of more 'rational' strategy of development. Although the industrial index for small and mid-size enterprises reached 100 in 1939 compared to 35 in 1930, this progress was made via preferential treatment of investors. The monopoly of production and marketing over many goods and services and franchising these monopoly rights to private companies allowed high prices in domestic markets. For instance, the monopoly production and price control over sugar led to underproduction as it was more profitable to sell less sugar at dear prices. Another important intermediary good, cement (55 per cent of total production was made by state owned companies-marketing was handed over to regional monopolies) was sold dearly in Turkey compared with Greece and Poland that were in similar conditions to Turkey ( 30 TL in Turkey, 12 TL in Poland, and 16 TL in Greece). Glass was produced by a Sumerbank owned company and the marketing of glass was franchised to private companies. All these goods were sold dearly in the domestic market and they were under-produced. Also imports of these goods were sold at domestic prices which meant great profit rates. See Yerasimos, 132-5 for details of this 'irrational and nepotic' industrialization strategy.

burgeoning industrial bourgeoisie during this period. The domestic terms of trade for essential agricultural goods, such as wheat deteriorated in favour of domestically manufactured goods.<sup>125</sup> The establishment of price support system for agriculture via governmental purchase did not favour small scale producers as they did not have sufficient means to reach purchase centres. This system mostly benefited intermediary agents and big-land owners. Other agricultural goods, such as cotton which were mostly produced by big-land owners and tobacco by small and mid-size farmers did not suffer as much as wheat production did. Both the efficiency and scale of production for these goods increased during this period. Although it can be argued that the state in this period paid most of its attention to industrialization, agricultural production also increased and it constituted the biggest share in export composition of the country. Besides, the tariff walls and the ISI strategy increased domestic production of agricultural goods and improved networks for domestic markets.<sup>126</sup>

Overall, the protectionism and industrialization policies mostly benefited industrialists, some sections of the commercial bourgeoisie, and big-land owners and mid-size farmers producing for local and international markets. Despite all the efforts to industrialize, primary goods and strategic raw materials, such as chromium still constituted the biggest share in the country's exports. Although Turkey seized the opportunity to industrialize, this industrialization was too embryonic to achieve a status shift. Most of the industries were concentrated on consumption goods. Capital goods, technology, and know-how for these and other intermediary good industries were imported from abroad. Protectionism, industrialization, and exports based on clearing and barter agreements solved Turkey's foreign currency and balance of trade issues. These policies also strengthened the industrial bourgeoisie vis-à-vis the commercial

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<sup>125</sup> Boratav, **Türkiye İktisat Tarihi**, 77, this was the case for wheat for the whole period. Tobacco and cotton suffered price falls initially and then restored their former price levels. For details of price controls, government purchases of agricultural products for domestic industries and exports, see *ibid*, 69-70. Boratav mentions some expropriations of private sector companies in this period (page 70). However, they were mostly concerned with foreign companies that invested in Turkey during late Ottoman years. Among them some municipal, railway, maritime, and energy companies established during those years were expropriated during this period. Although, the level of foreign investment decreased in this period, further investments were made in manufacturing and industrial sectors instead of banking and trade sectors. See Keyder, 146. For details of how taxation and monopoly prices were used as the source of financing state investment between 1929 and 1935, see Kazgan, **Türkiye Ekonomisinde Krizler**, 65-82.

<sup>126</sup> Yerasimos, 135-8. The domestic textile industry also increased the demand for cotton during these years.

bourgeoisie and big-land owners which used to benefit from free trade.<sup>127</sup> Alongside industrial bourgeoisie, the state increased its share in the economy and consolidated its politically unrivalled status in society during these crisis-laden years of the Great Depression and escalating international tension.<sup>128</sup>

In fact, the WW II years did not witness a change in the capital accumulation model. Before the war erupted in 1939, the capitalist world economy was in a relatively better condition than the initial years of the Great Depression. In this context, the government was planning to loosen the strict trade controls and foreign currency regime. The second 5-year development plan was designed to further public investment in infrastructure, mining, intermediary and capital goods sectors. Also the public companies for the consumption goods manufacturing were to be handed over to private companies. However, the eruption of WWII prevented implementation of the second 5-year plan and the government took extraordinary measures to cope with the war conditions.<sup>129</sup>

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<sup>127</sup> Some figures by Yerasimos demonstrates that trade retained a significant share of the GNP between 1927 and 1938. He states that a third quarter of the services sector were formed by trade services and share of service sector increased by 13 percent between these years and reached 36 per cent of the GNP (Sedat Özkol, **Geri Bıraktırlmış Türkiye: Emperyalizmin Sömürdüğü Ülkelerde Kalkınma Sorunu**, (Istanbul, 1969), quoted in Yerasimos, 139). Thus it can be argued that the commercial bourgeoisie who thrived on unfettered trade was hit by the Great Depression and the ensuing policy change. However, this does not necessarily mean that as a class the whole commercial bourgeoisie were worse off. It is more probable that the ones that adapted to the new policies were better off than the ones that failed to do so. See Yerasimos, 138-42 for some statistical figures and the balance sheet of the period.

<sup>128</sup> Yerasimos argues that these clearing agreements and accompanying foreign competition over Turkey were the signs of the resurrection of the imperialistic competition over Turkey. In fact, the clearing and loan agreements can be interpreted as such as a deal with Great Britain in 1938 was followed by a commensurate deal with Germany 6 months after. See Yerasimos, 142-6 for details.

<sup>129</sup> Güllalp, 32; Yerasimos, 132, 146. Yerasimos notes that the first five year development plan was not an all encompassing plan unlike the ones in the post 1960 period. It was designed to substitute consumption goods imports with domestically produced goods and it was about the sectors to invest in and some other technical details about training of necessary staff (second sentence from Keyder, 147-8). This plan was put in practice with the aid from the Soviet Union in the form of a barter agreement (capital goods in return for primary products). The amount of planned investment and the actual investment during the first 5 year plan was quite different. The former was 44 million TL whereas the latter 100 million TL. Keyder argues that the first five year plan was in the interest of burgeoning industrial bourgeoisie as the public companies founded according to this plan would provide their companies with cheap intermediary goods and they could sell their final products in the protected domestic market without foreign competition. He adds that the scale of investment needed to establish such factories was too big to assume for private investors. See Keyder, 148-50 for this symbiotic relationship between the establishment and private investors in this period. Kazgan also observes this symbiotic relationship in **Tanzimattan 21. Yüzyıla**, 69-73.

The most significant effects of war conditions over the economy were shrinking investment and output levels. As the imports for manufacturing industry were severely cut and most of the labour force in different sectors of the economy was conscripted, the gross domestic output decreased sharply. The investment plans were shelved and capital was diverted to fund the mobilization of the country against any foreign invasion. The major policy options to overcome high inflation and under-supply problems for the state were to adopt austere price controls over agricultural products and manufactured goods, tightening the import regulations, price ceilings over imports, and rationing of essential consumption goods. Several laws were passed to implement these policies and fund the mobilisation of the army and the country as a whole. These policies did not prevent high inflation and black market problem for the niches on which several controls were implemented. Once the price controls were loosened in the summer of 1942, the price levels of many consumption goods soared. To reduce inflation and tax enormous profit levels of big-land owners and commercial bourgeoisie, the government passed two taxation laws, the first one targeted the latter group and the second the former. The wealth tax was a one time tax and collected mostly from the remaining non-Muslim commercial bourgeoisie that were dominantly Jewish and Greek. The agricultural product tax was something akin to *aşar* but collected for two years. It was 10 per cent of the gross product of the farmers. This tax hit small scale and subsistence farmers very badly as their means of production were conscripted, i.e., men and animals, and they were forced to pay 10 per cent tax from their output in a high inflation, black market economy.<sup>130</sup>

#### **IV. Restoration of the Peripheral Accumulation Model of the 1920s**

The war years despite all the measures of the government to continue surplus creation was not very bright in terms of capital accumulation. The average gross capital accumulation ratio to the average GNP between 1933 and 1939 was 10.7 per cent.

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<sup>130</sup> For details of extraordinary measures taken by the state, see Yerasimos, 146-8, and 154 about forceful collection of taxes from small farmers by state forces. Regarding the wealth tax, Keyder argues that although it benefited industrial bourgeoisie (that year a third of the state revenue came from this tax) and Muslim bourgeoisie who bought the cheap assets of the non-Muslim tax payers, it violated an essential component of the capital accumulation process, i.e., right to private property. This violation, Keyder adds, raised some doubts on the part of Turkish bourgeoisie that one day such a violation would target them. See Keyder, 158-9 for this argument.

During the war years this fell to 8.2 per cent. However, Boratav adds that the average net capital accumulation ratio was only 3.7 per cent. In this period, the average GNP shrank by 6.0 per cent.<sup>131</sup> Although these drastic figures and several taxation policies of the government might have disturbed private entrepreneurs from different sections of the bourgeoisie, the change in the capital accumulation model in the aftermath of WWII did not only stem from their reactions to some of the wartime policy measures. Especially commercial bourgeoisie and big-land owners were still better off in terms of absolute accumulation of capital as the state did its best to ensure wealth creation under war conditions.<sup>132</sup>

The change was a combination of several factors. First and most influential factor was the end of WWII and the rise of the USA to the hegemony status in the capitalist world-economy. This new phenomenon put back the open market economy on the agenda in Turkey and elsewhere in the world. As Turkey rushed to become a member in the new institutions of the American Hegemony, such as the UN, and the US hegemony's economic agencies, i.e., the IMF and the WB, Turkey had to comply with the rules of the free trade regime and generous aid schemes that would ensure a great expansion cycle in the capitalist world-economy in the aftermath of WWII.<sup>133</sup> This compliance had made itself evident several years before the DP era. It should be noted that transition to a multi-party system was also encouraged by one of the post-WWII principles of the US hegemony, namely democracy.<sup>134</sup>

In order to get its share from generous US aid schemes, the establishment shelved a development plan that sought heavy industrialization in a closed economy. Once that plan was shelved in mid-1946, Turkey progressively liberalized its trade

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<sup>131</sup> Boratav, **Türkiye İktisat Tarihi**, 87-8

<sup>132</sup> Başkaya (**Paradigmanın İflası**, 236) quotes some amazing profit levels from The Chamber of Commerce and Industry in İstanbul. The bulletin of this institution claimed that the profit levels of tradesmen in this period varied between 300 and 1000 per cent over the products they sold. Also *Aksam* newspaper (10th of September, 1946) claimed that during the war years at least 2000 new millionaires emerged. Although these figures can be contested, they reflected the speculative nature and consequent high profit opportunities of the wartime years.

<sup>133</sup> These institutions were basically designed to prevent the inter-war period economic and political problems. The high level of mercantilism and protectionism in that period would be addressed by a free trade regime and the institutions to support this regime, foremost among them the US hegemony.

<sup>134</sup> Boratav, **Türkiye İktisat Tarihi**, 94-6, Yerasimos, 168, Gülaip, 32, Keyder, 159-60. Another factor in this policy was the so-called Soviet threat over Turkey. For details of this factor, see Erel Tellal, 'SSCB ile İlişkiler,' in **Türk Dış Politikası**, 499-521.

regime, devaluated its currency vis-à-vis the dollar and legislated laws that encouraged foreign direct investment.<sup>135</sup> In the summer of 1946, the new CHP government after the first multi-party elections in Turkey announced its programme in the parliament. This programme advised a greater share of private investment in Turkish economy. Also the government pledged to ensure the security of private sector and its surplus creation. Another important part of the program was the division of labour between the government and private sector. The government was to retain its activities only in sectors in which private entrepreneurs could not afford to invest. To realize this program, a new development plan was adopted in 1947. Also in that year, CHP congress adopted a new party programme that advised similar policies to those of the development plan. In general, the plan and the new CHP programme were the detailed versions of the CHP government programme in 1946. They sorted out sectors in which public investment was to be made, such as transportation infrastructure, energy, mining, and heavy industries, and military industry. They also set investment targets, more than half of which was aimed to be realized by foreign credit and investment.<sup>136</sup> Despite all the stress on the industrial investment priorities and division of labour, the priority in the plan was given to the agriculture sector and agricultural exports. This third plan can be seen as the continuation of the shelved second plan of 1939 with one difference. The third plan was adopted in a better international context for a peripheral country like Turkey. Thus, it advised a more liberal trade regime. The plan was also designed as a

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<sup>135</sup> Boratav argues that this plan was prepared by a radical faction of the establishment which advocated a more independent articulation to the new system. Keyder on the other hand argues that this faction was too blind to see that such an articulation was impossible in the context of a new US hegemony. Either way, this faction was defeated in CHP ranks. The ensuing policies of liberalization were adopted to facilitate Turkey's articulation to the UN economic agencies and the new Bretton Woods system. DP opposed devaluation of the currency on the grounds that it was not a timely move when the terms of trade for Turkish primary exports were increasing. See Cem Eroğul, **Demokrat Parti: Tarihi ve İdeolojisi**, 4th edition (Ankara: İmge, 2003), 40-1.

<sup>136</sup> Yerasimos, 170-1. Both Yerasimos and Boratav note that there was no major difference between CHP and DP programmes save for the DP policy of privatization of some manufacturers. Boratav criticizes the policy of promoting foreign investment and seeking foreign credit as Turkey by 1946 had considerable foreign currency reserves and trade surplus of 100 million US dollars (Boratav, **Türkiye İktisat Tarihi**, 99-100). Yerasimos (169-70) notes that these reserves and trade surplus were made due to clearing and favourable trade agreements with Germany and Allied Powers, and they were not sustainable once WWII was over.

signal to the US that Turkey would assume specialization in what it did best, agricultural production and primary goods exports.<sup>137</sup>

A closer look at Turkish politics in this period explains the other factor behind the change in the capital accumulation model. Transition to a multi-party system institutionalized the change in the capital accumulation model. The first multi-party elections in 1946 resulted with a decisive victory of CHP. However, DP without a proper preparation for the election received a considerable support from electorate. The first party programme of the DP stressed the importance of agriculture for Turkish economy and set this sector as the engine of economic development. It also stressed the importance of private entrepreneurship and investment in the economy and advocated minimum state intervention in the economy.<sup>138</sup> It is interesting to see that this programme was declared in early 1946 after which CHP adopted the above mentioned policies to liberalize the country. Especially after the first elections, it was evident that populism would dominate Turkish politics occasionally. Keyder argues that the main policies advocated by DP i.e., free market and liberalism in political and economic realms, addressed the aspirations of the majority of people who were dealing with agriculture, self-employed retail, trade, and manufacturing business. In their views, it was the free market economy where they could sell their products freely without any state intervention. Any attempts to industrialize or protectionism meant transfer of surplus from these people to some interest groups close to the state and the establishment itself. Restoration of economic activity for many of these people in the aftermath of the war and further investment in agriculture with foreign aid schemes meant improvement in their economic conditions.<sup>139</sup>

At the commanding heights of the Turkish bourgeoisie, a new economic congress was held in 1948 in Istanbul. It was organized by the Chamber of Commerce

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<sup>137</sup> Gülalp, 33. After this plan, Turkey was incorporated in the Marshall Plan and became a member of OEEC, which was established to manage the US aid to Europe.

<sup>138</sup> Eroğul, 31-2.

<sup>139</sup> Turkey's population was 20 million by that time and 80 per cent of it was small farmers. The retail and services sector in cities were dominated by self-employed people. The number of workers in manufacturing and other industries was less than half a million. In this context, market economy and minimum state intervention was a sound idea for the majority of population after extensive state control over economy. See Keyder, 165-7, for details.

in Istanbul and many other chambers of different sectors participated in the congress. It is interesting to see that there was hardly any representation for workers and small farmers in the congress. Participants were predominantly trade and industrial bourgeoisie, and big-land owners. This was a private congress and the establishment did not attend the congress although there were a few MPs as participants. From the opening addresses of various speakers from these chambers and organizations, one can understand that Turkish bourgeoisie was quite inspired by the transition to multi-party system and liberalization movement. They called for a more decentralized economic administration and condemned 'excessive' intervention of the state in the economy in the preceding era. In their views, it was time to leave the economy to the dynamics of the market and private entrepreneurship.<sup>140</sup>

At the end of the congress, a programme was adopted that advised the above mentioned division of labour between public and private sectors. Other policy recommendations were concerned with liberalization of the trade regime and improvement of export goods, transition to intermediary and manufactured goods in exports, reforms in taxation policies, equilibrium in the budget, inflation control, encouragement of foreign direct investment, and stability in the foreign currency regime.<sup>141</sup> The ensuing two government programmes of CHP and the DP programme declared in 1946 were in line with the policies adopted at this congress. The only major difference between CHP and DP and the bourgeoisie was the privatization issue. In practice, this policy would never be realized during the DP era.<sup>142</sup> All these events had institutionalized the capital accumulation model before the DP came to power in 1950 elections. This model was based on agricultural exports, a greater share of private entrepreneurship, public investment in infrastructure, intermediary and capital goods, generous credit schemes to the export sector; and a free trade regime. The balance sheet of immediate aftermath of the war shall be given in the next section of the DP era as until 1953, this model of accumulation continued unabated due to favourable

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<sup>140</sup> The opening speeches of the Congress can be retrieved from the State Planning Organization's online library at the following website, <http://ekutup.dpt.gov.tr/ekonomi/iktisa48/ikt48-1.pdf> , last retrieved, 27 April 2006.

<sup>141</sup> SPO e-library, the reports and decisions adopted in the congress, retrieved from <http://ekutup.dpt.gov.tr/ekonomi/iktisa48/ikt48-6.pdf> . Last retrieved 27 April 2006.

<sup>142</sup> Yerasimos, 172, Boratav, *Türkiye İktisat Tarihi*, 99.

international demand for agricultural products, generous foreign aid schemes, and restoration of the economic activity in the aftermath of the war.

At this point, it is useful to analyse the preceding period according to the three-levelled analysis of any capital accumulation model. In the preceding parts of the chapter it has been demonstrated that the first level of the model was also applicable to the Turkish case. The establishment and members of the bourgeoisie signalled their intentions about the economic regime of the country during the Lausanne Conference. Once the Republic was founded, several laws were adopted from Europe regarding commercial activities and private property. Besides, several privileged institutions from the late Ottoman years, such as the tobacco board, railways, and some other foreign companies were nationalized. After the Great Depression, the Central Bank was established and the state retained the seignorage rights in the country.<sup>143</sup> All these can be seen as further institutionalization of capitalist accumulation system in Turkey. At the second level, domestic class constellations and Turkey's position in the axial division of labour determined the modality of capital accumulation throughout the period. The initial model accommodated the interests of the Turkish bourgeoisie that were predominantly from trade and agriculture sectors. Once the existing articulation to the capitalist world-economy dragged the economy into balance of payment issues, the second accumulation model was progressively institutionalized. Although, this model was not in the best interest of commercial bourgeoisie and big-land owners, the new model provided them new opportunities in isolation from the dynamics of the world-economy. Once these dynamics changed, a new model was to be institutionalized which would be quite similar to the model of the 1920s.

At the third level, the political system of the Republic and major political conflicts give further insight to the dynamics behind various capital accumulation models institutionalized. First, it should be noted that during the late Ottoman times and in the establishment of the Republic, Turkish bourgeoisie, as a class in a peripheral economy, could not match the power of the establishment in several respects. First of all, they replaced the non-Muslim commercial bourgeoisie thanks to CUP policies and

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<sup>143</sup> For details of these nationalizations and the establishment of the Central Bank, see Kazgan, *Tanzimattan 21. Yüzyıla*, 44-5, and 63-6.

wartime conditions. Thus, it was a guided replacement under the state. The economic weakness on the part of the bourgeoisie was evident in the conditions of Turkish industry and agriculture by the end of WWI and the War of Independence. Therefore, the bourgeoisie could not provide any contribution to the regime formation or any formidable opposition to the establishment's policies in this issue. Rather, they jumped on the bandwagon of the national cause when their interests were threatened in the aftermath of the WWI and sufficed with their contribution to the National Economic Congress in 1923. Otherwise, they seemed content with the bandwagon attitude on other matters. In this context, the modality of the regime was determined to a large extent by the internal class conflicts within the establishment and the first parliamentary period; the first opposition party to CHP in 1925; and the ensuing authoritarian regime throughout the one party era.<sup>144</sup>

Since the 1923 elections, which institutionalized the elimination of the opposition in the first Grand National Assembly, the members of the parliament were chosen by the executive committee of the CHP.<sup>145</sup> This election system and its results represented the alliance between the Turkish bourgeoisie and the establishment. There were many big-land owners in consecutive parliamentary periods. Also the relationship between the establishment and the burgeoning industrial and commercial bourgeoisie was quite symbiotic. Many MPs were represented in the executive committees of national companies and banks that were established in this period. Some of the MPs with bureaucratic background established companies or involved in real estate and trade speculations and gained considerable amount of wealth. In sum, it was not easy in this period to discern whether a person was either a bureaucrat or a private entrepreneur, or an MP. Thus, the one-party era can be seen as an alliance between the establishment and the Turkish bourgeoisie to thrive in the context of a national economy.<sup>146</sup>

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<sup>144</sup> See Footnote 148 for details of the first parliamentary period and conflicts there which resurfaced in 1925.

<sup>145</sup> Hakkı Uyar, "Tek Parti Döneminde Seçimler," **Toplumsal Tarih**, Nisan (1999), 21-31, Ahmet Demirel, "1923 Seçimleri," **Tarih ve Toplum**, No. 144 Aralık (1995): 23-7.

<sup>146</sup> Even Adnan Menderes himself, who came from a big-land owning family, admitted that he was discovered by Mustafa Kemal. Menderes was the MP from CHP between 1931 and 1946 when he resigned from the party (Şevket Süreyya Aydemir, **İkinci Adam ve Menderesin Dramı**, (İstanbul: Remzi, 1969), 93-7 quoted in Başkaya, **Paradigmanın İflası**, 182). There were other examples similar to

There were two exceptional attempts to multi-party system in this era. The first one happened in late 1924 and the second one in the summer of 1930. The first opposition party in the parliament was founded after the 1923 elections. The opposition was mostly concerned with so called divergence of opinions among the founding cadres of the republic regarding the type of regime. This tension escalated in the course of time and reached the peak level during a parliamentary session concerning with corruption in allocation of land to immigrants who came to the country after the population exchange. The motion of censure against the government by some MPs was fended off but this event was followed by the establishment of the first opposition party in the parliament, Terakkiperver Cumhuriyet Fırkası (Progressive Republican Party). TCF had a programme which stressed liberalism in both politics and economy.<sup>147</sup> Some scholars argue that TCF was resurrection of the 2<sup>nd</sup> Group that represented less ‘radical’ and more liberal factions in the first parliament.<sup>148</sup> The eruption of a rebellion in the country made the first experience of the multi-party system a short-lived one. After the

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Menderes. For details of this symbiotic relationship between the establishment and Turkish bourgeoisie, see *ibid*, 180-3. Kazgan notes that the 74.2 per cent of the top executives of the private enterprises established between 1931 and 1940 were bureaucrats. See Kazgan, **Türkiye Ekonomisinde Krizler**, 81.

<sup>147</sup> Çavdar, 293-7.

<sup>148</sup> Yerasimos argues that the 2<sup>nd</sup> Group was formed of some big-land owners, commercial bourgeoisie, and some military officers who had family roots in the former groups. For Yerasimos, the 1<sup>st</sup> Group represented a more conservative faction of CUP that advocated a national economy under protection and state intervention. Although the 1st group prevailed over the 2<sup>nd</sup> Group after the first elections in 1923, Yerasimos adds that the ‘radical’ views of the 1<sup>st</sup> Group were diluted with the inclusion of İstanbul bourgeoisie in the National Economic Congress. See Yerasimos, 103-6 for details. Boratav’s short survey of economic thought during the late Ottoman years also supports Yerasimos argument. Boratav argues that there were two factions in the CUP. The first one advocated a decentralized open economy that would operate best when it specialized in areas which it had comparative advantage, i.e., agriculture. On the other hand, the second faction advocated a more mercantilist national economy to industrialize under the guidance of the state. See Boratav, **Türkiye İktisat Tarihi**, 25-7. Keyder argues that the mercantilism of the CUP was not like its contemporaries in Germany and Italy. It was more inspired by the aspiration to ‘save the Empire’ and hence save their class status in the society. They were not motivated as the representative of a class whose interests would be preserved under a mercantilist economy. However, in the course of WWI, they decided that their movement could be successful with a loyal population base, namely Muslim Turkish people. See Keyder, 77-99 for details of the rise of CUP to power and their modified views regarding modernization, survival of the Empire, and political economy. Çavdar’s account of the first parliament blurs such a distinction between the 1<sup>st</sup> and the 2<sup>nd</sup> Groups and hence the above-mentioned differences over economic policy preferences. According to Çavdar, the 2<sup>nd</sup> Group was a minority in the first parliament and their opposition mainly stemmed from some extraordinary policies adopted by the parliament, such as extraordinary courts, some ‘unlawful’ acts on the part of military, the issue of extraordinary powers given to Mustafa Kemal as the chief of staff, and so forth. See Çavdar, 245-8 for details of different groups in the first parliament. See also Ahmet Demirel, **Birinci Meclis’te Muhalefet: İkinci Grup**, (İstanbul: İletişim, 1995) for a similar argument to Çavdar’s.

rebellion, all the possible opposition to Mustafa Kemal and his CHP was eliminated.<sup>149</sup> Unlike the first one, the second attempt at creating a multi-party system was more of a guided one. Aware of the growing discontent with various government policies and the economic situation in the aftermath of the Great Depression, Mustafa Kemal ordered a close friend of him to establish a party that would provide a moderate opposition to CHP in the parliament. Serbest Cumhuriyet Fırkası (Free Republican Party) was established in the summer of 1930 under these circumstances. Although there was not a major difference between the SCF and CHP in terms of their economic views, the unexpected support to the former resulted in the dissolution of the party in three months.<sup>150</sup> After this event, the establishment progressively strengthened its status in the country under the conditions of the Great Depression and the escalating international tension.<sup>151</sup>

Apart from these two events, there were some changes in the several important government posts, which could be regarded as the reflection of class constellations in the society. The first one was the appointment of Ali Fethi Bey, the founder of SCF as the PM just after the establishment of TCF. He replaced İsmet İnönü as the PM but his tenure lasted only for 3 months.<sup>152</sup> The second one was the appointment of Celal Bayar as the minister of economy in 1932 with the request of Mustafa Kemal after the

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<sup>149</sup> It is interesting to see that after the assassination attempt in İzmir against Mustafa Kemal, one of the executed persons was Cavit Bey who was one of the founding fathers of CUP and also the mastermind of the liberal, decentralized economic policies mentioned by Boratav in the above footnote.

<sup>150</sup> Cemil Koçak argues that the main criticism of SCF over CHP's economic policies were monopolies over some consumption goods, high tax levels to fund several projects such as railways, the red tape in the economy, and lack of promotion for foreign investment. See Cemil Koçak, "Siyasal Tarih: 1923-1950," in *Çağdaş Türkiye*, 147-50 for details of SCF. Keyder argues that when DP was established, its network in several cities was provided by the former SCF organizations there. On the other hand, Keyder adds that by the time SCF experience happened, the bourgeoisie was aware that under the conditions of the Great Depression and given their relative economic weakness, it was better to continue the alliance with the establishment. This was effective in the dissolution of SCF. After WWII, adds Keyder, the bourgeoisie were economically mature enough to break part with the establishment. See Keyder, 171-2 for his arguments.

<sup>151</sup> The rejection of classes in Turkish society was a recurring argument on the part of the establishment. Between 1930 and 1945, corporatism reached its peak level in Turkish society. Also the administrative organs of the state were associated with CHP cadres in this period. This tendency has also its counterpart in Turkish academia. For an analysis of the Turkish academia on class issues, see Fuat Ercan "Sınıftan Kaçış: Türkiye'de Kapitalizm Analizinde Sınıf Gerçekliğinden Kaçış Üzerine."

<sup>152</sup> Koçak, 140. This change happened after the İsmet İnönü government requested the promulgation of martial law in CHP's parliamentary group. This request was rejected. The change was not motivated by the economic situation unlike the second change in 1932

protectionist policies diversified into growing state intervention in the economy.<sup>153</sup> Koçak argues that Bayar understood state intervention in the economy as a temporal necessity under the deteriorating international context and it would be done in realms in which private entrepreneurs could not attempt to invest. Thus, Bayar advocated the primacy of private investment in the economy and understood state investment as complimentary to the former. According to Koçak, Bayar and his PM İnönü disagreed on the modality of state intervention. For İnönü, state intervention was a universal and timeless necessity that would not change according to the changes in the international economic context. It would be made for the sake of public good and supplant private investments when necessary.<sup>154</sup> When İnönü resigned from the PM post in 1937, Bayar was appointed as the PM by Mustafa Kemal. Koçak argues that this resignation was caused by several events; foremost among them was the continuing divergence of opinion between Mustafa Kemal and İnönü during the 1930s on the modality of state intervention and Bayar's influence over the modality of state involvement in the economy.<sup>155</sup>

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<sup>153</sup> Tezel mentions two events that led to this change. The first one was the law that established Industrial Credit Bank in 1932. This law had a clause that repealed the tariff exemption for domestic companies' imports in the 1927 promotion of industry law. The second one was the establishment of State Industry Office in the summer of 1932. This law further disturbed the burgeoning industrial bourgeoisies as it was a deviation towards a 'socialist' economy where ownership of capital would no longer be the case. The law that established this institution gave extraordinary powers to it, such as giving permission to the establishment of private companies and expropriation of them once they amortized their establishment costs. After the Office did not allow İş Bankası to establish a wood-pulp factory, the reaction of the industrial bourgeoisie reached peak levels and Atatürk intervened in the situation and the Office was replaced with Sümerbank and the economy minister Şerif Bey with Celal Bayar. This clause and the establishment of the Office were deemed as a major disruption in the capital accumulation process and they led to a ministerial change by Atatürk's order. For details see, Yahya Tezel, "1934 Sanayi Programı ve Türkiye'de 'İktisadi Devletçilik'in Tarihindeki Yeri," *Görüş*, No.12 (1993).

<sup>154</sup> Of course one can ask why İnönü did not adopt such an interventionist policy during the 1923-1929 period. Keyder sees the consolidation of the establishment's rule and the regime in general in this period against the opposition from old CUP members; and several rebellions in the face of some international issues, as the prime reason why it could not divert its attention to economic issues as much as it did in the following period. See Keyder, 118-21 for details of this argument. İzzettin Önder argues that it is hard to figure out the real intentions behind the etatist policies in 1930 i.e., whether they were seen as a universal necessity or a temporal policy measure. However, he quotes from İsmet İnönü who is argued to lean towards the first view. This quotation from İnönü's article in *Kadro* in 1933 reveals the fact that there was a debate among the establishment between 1923 and early the 1930s whether etatism could be a policy tool in protecting the state from the dynamics of the capitalist world-economy. İnönü in that article argued that etatism was adopted not only to protect the economy from external dynamics but also to progress and develop it and to create a new order in economy. See Önder 266 and 267 for details.

<sup>155</sup> Before Bayar was appointed as the minister of economy, he was the chief executive officer of İş Bankası. For details of this opinion divergence, see Koçak, 150-2 and 157-9. Yerasimos claims that this

From the above events, it can be argued that the playing field for the questions of political economy was a guided one under the one-party rule. Most of the short and mid-term issues of the economy were addressed at the commanding heights of the establishment. Inclusion of the majority of the population into the political process was hardly existent throughout the period. The transition to the multi-party system changed the nature of the playing field for various classes in the country. Though indirectly, the majority of the population, who dealt with subsistence economy, could have a say in the political process.<sup>156</sup> The consolidation of the bourgeoisie during the one-party rule was mostly realized under the guidance of the state. The transition also meant the further dissolution of the former alliance between the bourgeoisie and the establishment. Besides, the international context in the second half of the 1940s was the opposite of the early 1930s. It was the beginning of a new expansionary era under the hegemony of the US and its post-war economic and political institutions. Due to this consolidation and the international context, the power of populism after the 1946 elections was more alluring for the bourgeoisie than the 1930 experience of SCF. They no longer saw the guided alliance with the establishment a necessary condition for their survival and gave their support to DP and its populist discourse.

## V. The Early DP Years: Continuity in the Model

Although one of the founders of the DP rejected the idea of classes, especially a capitalist class in Turkey, the DP programme was in line with the aspirations of Turkish bourgeoisie.<sup>157</sup> As the DP programme put liberalization on the forefront in

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appointment was the start of the conflict among a faction of the establishment and the bourgeoisie regarding the modality of state intervention in the economy. See Yerasimos, 130. Boratav argues that the growing state involvement in the economy in 1932 disturbed some factions of the bourgeoisie and they convinced Atatürk to appoint Celal Bayar as the ministry of economy instead of İnönü's minister, Mustafa Şeref. Boratav adds that this new appointment diluted some aspects of the 1932 laws that institutionalized increasing state involvement in the economy. However, according to Boratav, despite this change in the post, a new capital accumulation model was already institutionalized by then. See Boratav, *Türkiye İktisat Tarihi*, 67-8 for details.

<sup>156</sup> It is interesting to see that after the first multiparty elections, CHP changed some of its policies regarding the practice of secularism and economy. Keyder (160-1) argues that these changes in the policy attest to the power of populism after the transition in the face of mounting criticism from DP over these issues.

<sup>157</sup> Fuat Köprülü's statement to *Cumhuriyet* newspaper on the 9th of October, 1946. He argued that there was no necessity for a land reform as the poverty of the masses stemmed mostly from the under-developed Turkey. This statement is quoted from Eroğul, footnote 9 on page 91.

both economic and political terms, the commercial bourgeoisie would benefit from this liberalization policies and favourable international context. The division of labour between public and private realms of capital accumulation answered the decentralization aspirations of the industrial bourgeoisie. The priority given to the agriculture sector was in the interest of big-land owners. Nevertheless, the DP electorate was predominantly based on small farmers who dealt with either subsistence economy or production for domestic markets.

However, it was not only the interest of this group in DP policies that brought the party to power in 1950.<sup>158</sup> Given the conditions of mass communication in Turkey by that time, DP members were well aware of the power of this electorate and started an unusual campaign of visiting this electoral base, even the ones dwelling in very small villages in remote areas of the country. Due to this unusual propaganda method, most of the votes of DP came from this group of small subsistence and market farmers. The stress on the priority of market economy also allured small retailers and craftsmen in small and big cities. On the other hand, the first DP programme heralded extensive modernization in agriculture sector via generous government aid and price subsidies, imports for mechanization and yield efficiency, and so forth. This was in the interest of big-land owners as well as small farmers.<sup>159</sup> At a more symbolic level, the opposition of the founders of DP to the land reform of 1945 sent a strong signal to big-land owners that their status in country's agriculture sector would not be challenged.<sup>160</sup>

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<sup>158</sup> In 1950 elections, DP got 53 per cent of the votes but 83 per cent of the seats in the parliament. Figures are from Nermin Abadan, **1965 Seçimlerinin Tahlihi**, (SBF: Ankara, 1966), quoted in Eroğul, footnote 23 on page 84. The majority of the MP list was formed by professionals such as lawyers, doctors, economists, engineers, and some military officers. There were 55 farmers and 53 tradesmen as candidate. There were only 4 industrialists. These figures are taken from *Cumhuriyet*, 25 Nisan 1950, quoted in Eroğul, footnote 20 on page 82.

<sup>159</sup> Eroğul, 89-94.

<sup>160</sup> Keyder argues that there was no demand on the part of share crop producers or poverty ridden farmers for a land reform as their ailing situation did not stem from lack of land. Instead, it was the war conditions and the state's conscription policies that deprived them from their means of production, men and animals but not land. Keyder argues that CHP attempted such a reform in order to get support of this large group of people in the face of a fast burgeoning opposition to the establishment under the ranks of DP. It is interesting to see that during the DP era, a similar land reform was made and the number of families that benefited from this reform was 10 times larger than the numbers in CHP's last land allocation. In fact, land allocation during both eras, and after the foundation of the Republic, was mostly made according to de facto usage of state land by farmers. This de facto usage was mostly determined according to the scale

From the very beginning, DP had several policy tools to realize its party and government programme that promised economic growth for all the sectors of the economy after the stagnation years of WWII. First and foremost was to attract foreign capital and aid. Second was to provide generous and cheap credits to the agriculture sector to increase the agricultural output and hence exports. The third policy tool was to invest in infrastructure and industrial sectors that would compliment private investments and agricultural production. To finance government investments and spending, DP opted for monetary expansion rather than increasing taxation. The limits in any of these policy tools would be offset by the remaining policy tools or newly designed ones. Thus, the economic policies of the era were sanctioned by the limits of the policy tools and the capital accumulation model.<sup>161</sup>

The balance sheet of the years between 1946 and 1953 reflects the restoration of the articulation to the capitalist world-economy in the 1920s. The stress on the specialization of comparative advantages on the part of successive governments of CHP and DP, and various US aid schemes that came with policy recommendations increased the share of the agriculture sector in the GNP of the country. The average share of agriculture in the average output increased from 42 per cent to 45.2 per cent between 1946-7 and 1952-3. On the other hand, the share of industrial sector in GNP fell from 15.2 per cent to 13.5 per cent in the same period.<sup>162</sup> Despite the fact that the industrial sector grew on average by 9.2 per cent per year, the faster growth rate in agriculture, which was 13, 2 per cent on average, diminished the share of industry in the GNP. The GNP increased by 10.2 per cent on average during this period. The average capital accumulation ratio in the average GNP was 10.5 per cent. However, 18 per cent of this accumulation was financed by foreign sources. Also starting with 1947, trade deficit became a norm in Turkish economy. Between 1946 and 1953, the cumulative trade

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of means of production in the hands of farmers, i.e., animals, men, and machines. See Keyder, 174-6 for details.

<sup>161</sup> Kazgan, **Türkiye Ekonomisinde Krizler**, 95-105. Kazgan notes that the average contribution of taxation to the average GNP during the DP era was 11 per cent. The share of public spending in GNP was well over this contribution. See *ibid*, 109.

<sup>162</sup> Boratav, **Türkiye İktisat Tarihi**, 101.-2

deficit reached 500 million US \$.<sup>163</sup> The following paragraphs analyse these changes with an emphasis on the early years of the DP tenure and domestic class constellations.

The increase in agricultural production in the immediate aftermath of WWII was due to restoration of agricultural production. Once DP came to power, this production was supported by extensive mechanization of agriculture, i.e., tractors and other machine imports, introduction of artificial fertilizers and improved seeds. Also the amount of credit given to the agriculture sector increased quite significantly in this period. Although most of the credit was allocated to small farmers in the first year of the DP tenure, in the following years more than half of the cumulative credit was given to big-land owners and rich farmers.<sup>164</sup> As a result of these generous credits and foreign aid, between 1950 and 1953, 85 per cent of the total investment in the country was made in the agriculture sector.<sup>165</sup> Another important factor in the expansion of agriculture was the continuing ‘land reform’ since 1945. By 1950, the amount of land allocated to the farmers was 365, 958 acres. After the DP came to power, ‘land reform’ gained momentum and by the end of 1954, the total amount of land allocated to farmers were 2, 370, 000 acres.<sup>166</sup>

Two other important factors in the expansion of agriculture sector were investment in transportation infrastructure in the early DP years and increased demand

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<sup>163</sup> There were two reports prepared by the US aid officers. One was the Thornburg report of 1946 that stressed the necessity to modernize agriculture and advised not to invest in heavy industry. The other one was the Barker report (WB report) that stressed the same necessity alongside the liberalization of the economy. The Barker report did not advise the same regarding industry. Both reports advised abandonment of etatist policies and promotion of foreign investment. See Kazgan, **Türkiye Ekonomisinde Krizler**, 98-99.

<sup>164</sup> Mustafa Albayrak, **Türk Siyasi Tarihinde Demokrat Parti: 1946-1960**, 338.

<sup>165</sup> Each 1million TL of investment in agriculture sector yielded 2.671 TL increase in production. In the construction sector this return was 3.306 TL. See Kazgan, **Türkiye Ekonomisinde Krizler**, 101.

<sup>166</sup> Albayrak, 341, 344. Albayrak’s figures are in ‘dönüm’ which is approximately 1000 square meters, a quarter of an acre. Keyder argues that the allocation of land since 1945 was most of the time the legalization of de facto usage of treasury land and it did not mean expansion for the big-land owners at the expense of small farmers. Both of them were better off by the ‘land reform’ act. This was partially because of mechanization in agriculture. As most of the time rich farmers and big-land owners could afford to buy tractors, many share-croppers became redundant. These people started irrigating treasury or common lands of the village. Their de facto usage became legalized by the land reform commissions. With these developments in the agriculture sector, the Ottoman legacy of small subsistence farmers was further consolidated. By the end of 1960, farmers without land fell by 6 per cent to 10 per cent of the whole agricultural households. The number of small-scale farms increased by 30 per cent in the same period. See Keyder, 177-82 for the details of changes in the agriculture sector in the first half of the DP tenure. Keyder notes that the South-east Turkey was an exception in this win-win situation of agricultural modernization for different types of farmers.

for agricultural goods in the capitalist world economy in the face of undersupply due to the devastation during WWII. The investment in transportation infrastructure was mostly concerned with construction of motorways. The emphasis was on the building or rehabilitation of motorways in rural areas. With this policy, imports of vehicles increased quite significantly and several complimentary industries were established in Turkey, such as car manufacturing and tyre factories.<sup>167</sup> This policy benefited the agriculture sector as it provided better transportation facilities for agricultural products. The last factor in the rising share of agriculture was the increased demand for agricultural goods in the capitalist world-economy in the aftermath of WWII. Especially after the breakout of the Korean War in 1950, major grain producers, USA and Canada spared a considerable amount of their exports for a contingency. The fall in the total supply of grain increased the worldwide prices. Turkish agriculture benefited from this context. Once the Korean War was over, the agricultural prices started to deteriorate.<sup>168</sup> In sum, under these circumstances between 1950 and 1953, the surplus created in agriculture sector increased more than 25 per cent. The average increase in the agricultural output was 12.2 per cent. The value of total exports increased more than 30 per cent. The GNP increased on average by 11.3 per cent.<sup>169</sup>

The commercial bourgeoisie benefited from two policy tools the DP government started to use in the early years of the decade. The first one was attracting foreign aid and credits. For this aim, in 1950, the state guaranteed the repayment of long term foreign loans up to 300 million TL taken by the private entrepreneurs. In 1953,

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<sup>167</sup> Throughout the DP era, the motorways in rural areas expanded by 15 times. On the other hand, intercity motorways expanded by 2 times. For details of the transportation in the DP era, see Albayrak, 385-8

<sup>168</sup> Boratav gives some statistical figures to argue that the domestic terms of trade for agricultural goods did in fact deteriorate in this period. Only cotton prices were better off. He adds that diversion of credit and mechanization in agriculture offset this deterioration domestically. See Boratav, **Türkiye İktisat Tarihi**, 104-5 for details. Keyder on page 184 quotes some figures from **UN Statistical Yearbook, 1955**, p. 81, regarding the worldwide agricultural output. Assuming pre-war volume as 100, in 1953/4, the volume increased to 183. In this context, despite the relative shortage in the supply during the Korean War, the deterioration was a basic example of short term cycle in the capitalist world economy. Overproduction led to underconsumption. Besides, the low demand elasticity for agricultural goods was another factor in this deterioration. The figures Yerasimos composed (from H.C. Baade, **Türkiye'de İhracat ve Görünmeyen Kaynaklar**, (OECD: Paris, 1961), in Yerasimos, 195) for the export prices of major agricultural exports of Turkey between 1946 and 1953 demonstrate the fluctuation in the unit prices. For a detailed analysis of the agriculture sector between 1946 and 1953 see Yerasimos, 183-93.

<sup>169</sup> Kazgan, **Türkiye Ekonomisinde Krizler**, 99-101.

another guarantee of repayment was given to commercial foreign credits. The guarantee did not grant any state control over how the credit was used.<sup>170</sup> In this context, the commercial bourgeoisie started to institutionalize their investment in the service sector and many commercial banks and trade companies were established to benefit from these credit schemes.<sup>171</sup> As a result, in the first half of the DP tenure, the amount of credit the trade sector secured almost matched the amount given to the agriculture sector despite the fact that its share in the GNP was less than a quarter of the share of agriculture.<sup>172</sup>

The second policy tool from which the commercial bourgeoisie benefited was liberalization of the trade regime. Especially after DP came to power, the only protective measure for the Turkish economy left was tariffs.<sup>173</sup> Also the gold reserves of the country were used to fund imports when the Central Bank released the gold reserves in 1950.<sup>174</sup> This liberal trade regime helped the volume of imports in this period soar. One consequence of this liberal trade regime was trade deficit which had to be covered by increasing foreign aid and credit, hard currency and gold reserves of the country. Once the current accounts deficit reached peak levels in 1953 and 1954 due to these factors and loan repayments, trade liberalization was progressively reversed.<sup>175</sup> Nevertheless, the credit guarantees in 1950 and 1953 would offset this policy reversal for private banks and trade companies. Between 1950 and 1954, the commercial credits secured by private investors almost matched the amount of foreign aid in the same period. Moreover, between 1953 and 1958, the amount of credit provided through these two guarantees was at par with the volume of credit the government secured from foreign governments and international organizations.<sup>176</sup> The composition of imports did

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<sup>170</sup> See Kazgan, **Tanzimattan Günümüze Türkiye Ekonomisi**, 83 and **Türkiye Ekonomisinde Krizler**, 106 for details of these two credit schemes.

<sup>171</sup> Kazgan, **Türkiye Ekonomisinde Krizler**, 110 and 118.

<sup>172</sup> It was 46 per cent of the whole credit. This figure is for 1952 (Yerasimos, 187). In 1955, the share slightly increased to 46.8 per cent. Z.Y. Hershlag, **Turkey: The Challenge of Growth**, (Leiden, 1968), quoted in Yerasimos, 205.

<sup>173</sup> Boratav, **Türkiye İktisat Tarihi**, 100.

<sup>174</sup> Kazgan, **Türkiye Ekonomisinde Krizler**, 104. A third of the gold reserves were already gone when this policy was abolished in 1953.

<sup>175</sup> Ibid, 105. See Table III on 105 for the current account deficits throughout the DP era.

<sup>176</sup> Kazgan, **Tanzimattan 21. Yüzyıla**, 88-9. The amount of foreign government and international organization credits between 1950 and 1960 was 1 billion US \$. On the other hand, the amount of

not witness significant changes until 1954. Consumption goods were approximately 20 per cent of the whole imports. The rest of the imports were composed of equipment, capital and intermediary goods for various sectors, such as agriculture, construction, industry, and transportation.<sup>177</sup> The last sector had the biggest average share in imports between 1948 and 1955. It was followed by the imports for manufacturing sector and mechanization in agriculture respectively.<sup>178</sup>

Despite the fact that the industrial sector got almost 0 per cent of the credit allocated to private investors in the first five years of the DP tenure, the sector expanded significantly.<sup>179</sup> The number of companies which employed more than 9 workers expanded from 712 to 1268 between 1950 and 1954. In 1950, the private companies constituted the 85 per cent of this group. The increase in the number of private companies partially happened because of the state guarantee over commercial credits. Not only trade companies and banks but also manufacturing companies were established to benefit from the state guaranteed foreign credit.<sup>180</sup> Despite the increase in the number of companies, the state owned companies employed approximately half the total work force, produced more than half of the total added value, and provided more than half of the fixed capital investment in big-scale industry during this period. In this group, private companies mostly involved with production of consumption goods such as spirits, cigarettes, processed food, and textiles. The expansion in the industrial sector between 1950 and 1954 stemmed mostly from increased investment in these niches. Besides, the chemicals sector started to expand with newly established drug and cement factories.<sup>181</sup> The composition of imports between 1950 and 1954 did also support this

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commercial credits secured under the 1950 guarantee was 210 million US \$. Under the 1953 guarantee, the amount was 600 million US \$.

<sup>177</sup> Calculated from the figures in Z.Y. Hershlag, **Turkey: The Challenge of Growth**, quoted in Yerasimos, 184.

<sup>178</sup> The transportation sector had 37.3 per cent, the manufacturing sector had 26.1 per cent, and agriculture 18.83 in imports of equipment and machines between 1948 and 1955. These figures are composed from BM, **Mısır, İsrail ve Türkiye’de İmalat Sanayi Evrimi**, (New York: BM, 1958), quoted in Yerasimos, 184.

<sup>179</sup> The Bank for Industrial Development was founded in the summer of 1950. Its capital was provided by the government, the WB, several Turkish banks and industrialists. The amount of credit this Bank allocated to private industry between 1950 and 1952 was only 52 million TL. See Albayrak, 327-8 for details.

<sup>180</sup> Kazgan, **Türkiye Ekonomisinde Krizler**, 118.

<sup>181</sup> Yerasimos, 205-8. The first cement factory started production in 1954. It was a state owned company. The drug factories were joint ventures or MNCs, such as Pfizer (1958), Sandoz İlaç (1956), and Türk

expansion.<sup>182</sup> In sum, the industrial output increased by 10.5 per cent on average between 1950 and 1953. Despite all the increase in the number of companies and the output, the share of industry fluctuated below 15 per cent of the GNP in this period.<sup>183</sup>

## **VI. Limits of the Peripheral Model and Transition to the Import Substitution**

The first limitations in DP's policy tools to 'develop' the country happened in agricultural production and hence export earnings in 1954. Despite all the investment in the agriculture sector, a great majority of producers were still producing with archaic methods. The yield was to a large extent dependent on climatic conditions. The fall in worldwide agricultural prices and limitations of the efficiency in the sector decreased the export earnings of the economy after 1953. Besides, the foreign aid for civilian purposes hit the bottom level in 1954. These credits were mostly used to mechanize the agriculture sector. The decreasing level of foreign credits for civilian purposes was reflected in the decreasing share of agricultural credits in the total credit volume. The average share of agricultural credit fell to 36.2 per cent between 1953 and 1955.<sup>184</sup> In 1954, due to the problems in the agriculture sector, the GNP fell by 10 per cent below the 1953 level. The falling import volume was also effective in this decrease as well as

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Hoechst (1954). See Kazgan, **Türkiye Ekonomisinde Krizler**, 124 for the names of MNCs that invested in Turkey. Also a domestic company Eczacıbaşı opened its first drug factory in 1952 in Istanbul.

<sup>182</sup> Kazgan notes that the share of consumption goods reached 25 per cent of the whole imports in 1952 and the composition was dominantly luxury goods (**Türkiye Ekonomisinde Krizler**, 104). Kazgan refers to year 1952 when the share of consumption goods reached its peak level index wise on the table she gives on page, 121. However, that table also proves the figures Yerasimos gives. Keyder also adds that the share of consumption goods were around 20 per cent in the first half of the DP tenure. He argues that the DP policies were demonstrating a developmentalist deviation. See Keyder, 184 for details.

<sup>183</sup> This figure is in nominal prices. See Kazgan, **Türkiye Ekonomisinde Krizler**, Table II on page 122. The statistical figures Albayrak provides about the outlook of the Turkish industry by the start of the DP era proves the importance of state investment in industry. For instance, in 1952 the contribution of state owned industries to the GNP was 8.59 per cent. In the first half of the DP tenure, a few more state companies were established such as Makina ve Kimya Endüstri Kurumu, Türkiye Çimento Sanayi A.Ş., additional factories to the wood-pulp industry (SEKA), Azot Sanayi T.A.Ş., several sugar beet factories, additional factories to the iron and steel factory in Karabük, a few dams for electricity production, Et ve Balık Kurumu. Thus, DP abandoned its policy of privatization and further invested in the industrial sector. See Albayrak, 305-16 for details of the DP policies regarding Turkish industry. Kazgan argues that the privatization policy of the DP failed because the terms bidders offered were quite unfavourable (due to their financial weakness) and also the nominal values of these companies could not be determined because there was no financial market where the shares of these state-owned companies could be traded. See Kazgan, **Türkiye Ekonomisinde Krizler**, 124-5 for details.

<sup>184</sup> Yerasimos, 201-2.

unfavourable weather conditions in the country.<sup>185</sup> Between 1946 and 1953, exports consistently increased except in 1948. The amount of exports in 1953 was approximately 400 million US \$ which was the highest amount recorded ever. On the other hand, imports increased faster than exports.<sup>186</sup> In order to cover the consistent trade deficit, the DP government adopted protective measures in trade and foreign exchange regime.<sup>187</sup> Moreover, it amended the promotion of foreign investment law and made it more favourable than its 1947 version. One of the aims of promotion of foreign direct investment was to substitute imports with domestically produced goods. Another was to increase investment in mining and petroleum industry. This aim was formalized by the petroleum law of 1954. After this amendment and the new law, the level of foreign investment increased compared to the past years but the amount was quite insignificant compared to import volumes. The investments were made usually via joint ventures in different sectors, such as wood-pulp, electronics, rubber, chemistry, metal consumption goods, and food.<sup>188</sup>

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<sup>185</sup> BM, **Mısır, İsrail ve Türkiye**, quoted in Yerasimos, 203. After 1954 Turkey started to import wheat from the US to supply the domestic market. This was due to weather conditions and declining terms of trade for grain. Big-land owners and mid farmers increasingly turned to cotton and tobacco production as the terms of trade for those goods were relatively better than that of wheat. Between 1951 and 1955, the amount of grain exported was 5.2 per cent of the total production. On the other hand, this ratio was 45.1 per cent for cotton and 59.6 per cent for tobacco (Sedat Özkol, **Geri Bıraktırlmış Türkiye**, quoted in Yerasimos, 198). In 1953, the share of these two agricultural goods in total agricultural exports was 55.1 per cent (composed by Yerasimos, 198 from Baade, **Türkiye’de İhracat**). See Yerasimos, 198-202 for details of the agriculture sector in these years.

<sup>186</sup> In this period, the share of exports in the GNP was 7.24 per cent in average approximately. On the other hand, imports constituted 8.57 per cent of the GNP in average. The figures are calculated in US \$ from Table: 1945-1960 Döneminde Türkiye’nin Temel Ekonomik Göstergeleri, prepared by Hikmet Ulugbay, in Baskın Oran, “1945-1960 Batı Bloku Ekseninde Türkiye-1,” in **Türk Dış Politikası**, 487.

<sup>187</sup> The first amendment was made in late 1953 on these regimes. However, the major amendment was made in the summer of 1954 which ushered in new control and limitation mechanisms. See Boratav, **Türkiye İktisat Tarihi**, 110. The PM Adnan Menderes once said that the initial trade regime in the first years of DP was designed by an professor of Economics who was assigned as the Ministry of Trade. When he lowered the trade barriers almost by 100 per cent, Menderes himself was shocked fearing that this would destroy the balance of trade. The minister assured Menderes that it was a fine decision. However, Menderes said this trade regime brought the country to the brink of bankruptcy. Menderes’ statements were quoted in Ercument Yavuzalp, **Menderes’le Anılar**, (İstanbul: Bilgi, 1991), 90, quoted in Erol Mütercimler and Mim Kemal Öke, **Düşler ve Entrikalar: Demokrat Parti Dönemi Türk Dış Politikası**, 2nd edition (İstanbul: Alfa, 2004), 402. Of course, this policy was adopted after the OEEC recommended Turkey to lower its trade barriers by 60 per cent in the autumn of 1950. See Kazgan, **Türkiye Ekonomisinde Krizler**, 103.

<sup>188</sup> For details of the proceedings of the parliament regarding the 1954 law and the figures about FDI see, Albayrak, 316-23

Similar to the start of the 1930s, Turkey was suffering from the dynamics of the capitalist world-economy in 1954. The unequal exchange between the raw material producers and high-wage high-skilled goods producers dragged the country in to balance of payment issues again. The major export earnings were from agriculture, and decreasing worldwide prices and limitations of efficiency due to ongoing archaic methods of production made this articulation model an unsustainable one. As mentioned before, one of the policy tools of the capital accumulation model of the era was securing capital flows into the country.<sup>189</sup> The foreign aid to sustain the imports and cover the trade deficit was decreasing, and loan repayments further deteriorated the situation. Once the protective measures were implemented, the share of consumption goods in the import composition fell by 5 per cent to 14.6 per cent of the whole imports in 1955.<sup>190</sup> Another major fall was registered in the imports for the construction sector. In the construction niche, the remaining years of the DP tenure witnessed consistent decreases. This decrease was offset by domestic production especially in cement due to state investment in the cement sector.<sup>191</sup> In the consumption goods, the volume fell again in 1956 to 11.1 per cent and then fluctuated around 12 per cent in 1957 and 1958. By 1960, the volume fell to 9.6 per cent of the whole imports. On the other hand, imports in machine and equipments, and primary and intermediary materials for the manufacturing industry increased at the expense of the above two niches. Especially the increase in the second niche is quite significant as the average share of this niche in the first four years was 29.78 per cent whereas between 1955 and 1960, this share jumped to 38.8 per cent on average.<sup>192</sup>

The daily difficulties in Turkish economy, such as scarcity in major consumption goods; and macro economic problems, such as chronic trade deficit and consequent scarcity in foreign currency in the face of decreasing foreign aid and repayment of the existing loans forced the DP government to take extraordinary measures starting with 1953, such as export subsidies and import tax; setting up of a

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<sup>189</sup> Kazgan, *Tanzimattan 21. Yüzyıla*, 84.

<sup>190</sup> Z.Y. Hershlag, *Turkey: The Challenge of Growth*, quoted in Yerasimos, 184.

<sup>191</sup> The number of state owned cement factories increased after 1954 when the first factory started production in Afyon. By 1960 there were 10 new cement factories established. See Albayrak, 310.

<sup>192</sup> The average figures are calculated from Z.Y. Hershlag, *Turkey: The Challenge of Growth*, quoted in Yerasimos, 211.

hard currency board which allocated hard currency to private sector; price controls on imports and domestic goods; decrees against stockpiling; and finally the national Protection Law in 1956, which was the resurrection of the former law that was passed during WWII.<sup>193</sup> With this law, the DP government imposed strict price controls over goods and services, established courts to punish ‘criminals’ who stockpiled essential goods or did not abide by the prices imposed by the government. In some instances, government distributed several goods highly demanded.<sup>194</sup>

The above figures and events were the reflections of a new capital accumulation model that would be institutionalized after the DP era ended with a military intervention. This model was based on the ISI strategy. Nevertheless, during the second half of the DP era, there were only some policy measures towards ISI and increased state investment in the economy unlike the post-1960 model where these policies were designed and implemented by successive governments and several institutions, such as the State Planning Organization that were established with constitutional clauses.<sup>195</sup> One of the reasons why DP failed to institutionalize the ISI strategy was the awareness on the part of DP rulers that their electoral base in the society benefited from the expansion and liberalization in the first half of the DP tenure, and a policy reversal would mean considerable loss in votes in the 1954 elections.<sup>196</sup>

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<sup>193</sup> For details of these measures, see Kazgan, **Türkiye Ekonomisinde Krizler**, 110-111.

<sup>194</sup> The crack down on stockpilers was not confined to small shopkeepers. Singer was fined because of stockpiling sewing machines in its factory. For the measures taken since 1954, see Albayrak, 355-9.

<sup>195</sup> The censure about the manufacturing industry in Turkey reveals the increasing state investment in the economy after 1956. For instance, the amount of investment by the state was around 1.4 billion TL by the end of 1956. By the summer of 1959, this amount increased to almost 5.8 billion TL. The difference between the state investment and private investment in this period was approximately + 1 billion TL in favour of state investment. Another interesting figure from this censure is that the actual production was well below the production capacities through the DP era. The difference increased significantly from 8.5 billion TL (50 per cent of the production capacity) in 1956 to 15 billion TL (25 per cent of the production capacity) in June 1959 when the censure was made. This attests to the hardships in the economy due to decreasing import levels. Although, the DP could sustain high investment levels via printing money, the foreign currency earnings of the country, which was to a large extent dependent on the export earnings from agriculture sector, did not increase. Therefore, imports were too low to help actual production reach the production capacity. Besides, the foreign aid was mostly made in the form of military aid (usually equipment) in years between 1955 and 1960. The foreign currency earnings and the type of foreign aid (cash or military equipment) thus became important factors in sustaining manufacturing in Turkey that was to a large extent dependent on imports of intermediary goods. It should be noted that in this period the foreign aid was provided dominantly by the US (76.8 per cent of the total aid). The aid figures are taken from Yerasimos, 219. The censure figures are taken from Albayrak, Table 17, page 330.

<sup>196</sup> Keyder, 186.

Between 1950 and 1953, the GDP per capita increased by 28 per cent.<sup>197</sup> The expansion in the economy did happen due to not only foreign aid but also increasing government investment in the economy. The level of investment in the first half of the DP tenure was around 11 per cent of the average GNP.<sup>198</sup> As the economy plunged into a crisis in 1954, the DP rulers resorted more to the monetary expansion to sustain the economic growth. The policy tool aimed at sustaining high level of investment in the economy and supporting agriculture sector in the face of declining international and domestic terms of trade.<sup>199</sup> The increase in the money in circulation between 1950 and 1954 was around 500 million TL. However, this amount increased by 500 million TL in one year between 1954 and 1955.<sup>200</sup> The monetary expansion policy continued unabated except 1958, and every year the money in circulation increased by approximately 500 million TL. By 1960, the volume in 1955 was more than doubled.<sup>201</sup> This was used in government investment projects and allocated as cheap credit and price subsidies to the agriculture sector.<sup>202</sup> Of course this monetary expansion in the second half brought higher inflation with it compared to the first half of the DP tenure. The reason was that in the first 3 years of the DP tenure, the increase in the output compensated the increasing money emission and prevented a higher inflation level. Because of the increase in the GNP in the first three years, the inflation in the first half of the DP era mostly stemmed from high demand. In the second half, it was more of a cost inflation as there were persistent hardships in the manufacturing and agriculture sectors due to decreased imports and credit schemes.<sup>203</sup> Besides, the increasing monetary expansion

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<sup>197</sup> Baskın Oran, “1945-1960 Batı Bloku Ekseninde Türkiye-1,” in **Türk Dış Politikası**, 488

<sup>198</sup> Calculated from Kazgan, **Türkiye Ekonomisinde Krizler**, Table IV on page 107.

<sup>199</sup> In the initial years of the DP tenure, investments were mostly funded by foreign aid and domestic savings. However, once the GNP fell in 1954, DP resorted to monetary expansion to sustain economic growth and support agriculture sector. See *ibid*, 107-10 for a detailed explanation of these policies in macroeconomic terms.

<sup>200</sup> Calculated from Albayrak, Table 30, on page, 349.

<sup>201</sup> *Ibid*.

<sup>202</sup> Kazgan, **Türkiye Ekonomisinde Krizler**, 108-111. After 1958, monetary expansion slowed down as the percentage of the total amount of money in circulation since the IMF package aimed to control inflation.

<sup>203</sup> Ahmet Kılıçbay, **Türk Ekonomisinde Enflasyonun Anatomisi**, (İstanbul: Matbaa, 1982), 6, quoted in Albayrak, 352.

was effective in the inflation rates in the second half of the DP tenure due to the slow growth rate of GNP.<sup>204</sup>

Despite all the hardships mentioned above, different groups in the Turkish bourgeoisie benefited from the embryonic ISI strategies. To begin with, the industrial bourgeoisie benefited from the protected domestic market under the tariff walls and quotas. Between 1955 and 1959, there were 784 new enterprises established, and this was higher than the total number of industrial enterprises in 1950. This number attests to the increasing substitution of imported consumption goods. The share of consumption goods, such as textiles, food processing, spirits, and processed tobacco still constituted more than half of the industrial production. Nevertheless, new enterprises in sectors such as rubber, drugs, electronics, and metal goods were established.<sup>205</sup> Once the increasing protective measures further disrupted the flow of consumption goods, the MNCs and their domestic distribution agents could attempt to engage in green-field investment to dodge these trade barriers and benefit from the highly protected domestic markets and hence high profit rates.<sup>206</sup> Under these circumstances, the industrial sector increased its output. The industrial and construction index increased to 178 in 1960 from 143 in 1955 (1950=100, 1953=140). However, the share of these two sectors in the GNP did increase only by 0.6 per cent between 1950 and 1960 and reached 22.3 per cent.<sup>207</sup>

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<sup>204</sup> For details of the inflation rates and monetary expansion see Kazgan, **Türkiye Ekonomisinde Krizler**, Table V, 108.

<sup>205</sup> Yerasimos argues that high profit levels from the consumption goods imports in the early years of the DP tenure created lethargy on the part of some commercial bourgeoisie which prevented further investment in manufacturing sector. However, once the quotas were mostly assigned to primary and intermediary goods imports, they established manufacturers to continue their surplus creation. See Yerasimos, 212-3 for details. To name a few companies established during this period, AEG-Eti, Etitaş Elektrik, Birleşik Alman İlaç, Tohum Islah Üretim, Türk Pirelli, Türk Philips, Türk Traktör, Unilever, Tütüntex, General-Electric, Pfizer, Türk Otomotiv, Singer were among the joint ventures and companies produced with licence agreement in Turkey. See Kazgan, **Türkiye Ekonomisinde Krizler**, 124.

<sup>206</sup> Gülalp, 34.

<sup>207</sup> OECD, 'Güney Avrupada Zirai Kalkınma,' 1969, quoted in Yerasimos, 214. This insignificant increase is due to the high inflation rate in the country throughout the DP era, especially in the second half of the DP tenure. Therefore, index figures better represent the expansion. Boratav argues that between 1954 and 1961, the share of industrial sector in GNP reached 18 per cent. The Graph II Kazgan provides in **Türkiye Ekonomisinde Krizler**, on page 122 regarding the sectoral shares in GNP (in nominal prices) supports Boratav's findings.

As mentioned before the commercial bourgeoisie received a considerable amount of credit from the foreign sources in the first half of the DP tenure. Thanks to these credits and liberal trade regime, the high level of imports provided high levels of profit for the commercial bourgeoisie. Despite the crisis in 1954 led to protective measures, the trade sector continued to operate under the privileged credit guarantees by the state, and borrowed from foreign sources via existing and newly established domestic commercial banks. As mentioned before, the Central Bank assumed the responsibility to pay back these ‘import credits’. However, it did not have the authority to control how these loans were used. The increase in the service sector during the second half of the DP tenure attest to the importance of this highly used credit scheme. The increase in the share of service sector in the GNP between 1950 and 1960 was 5.5 per cent and the share reached 34.6 per cent of the GNP in 1960. Index wise this sector recorded more than a twofold increase (1950=100 and 1960=206).<sup>208</sup>

On the part of big-land owners, the favourable treatment of the agriculture sector in the first half of the DP tenure benefited those the most. The mechanization and generous credit schemes to the agriculture sector helped the sector expand significantly. Also price support systems and lack of direct taxation over the farmers meant transfer of wealth to the agriculture sector from other sectors of the economy and ordinary consumers in the society.<sup>209</sup> As mentioned before, when the terms of trade for agricultural products started to deteriorate domestically and internationally, DP opted for monetary expansion to support the agriculture sector. Nevertheless, the expansion in the output of the agriculture sector mostly happened in industrial export goods, such as tobacco and cotton; and other export goods, such as raisin, fig, and nuts.<sup>210</sup> Although Turkey exported wheat throughout the DP era, it had to import it as well to supply the domestic market due to decreasing total output because of weather conditions and

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<sup>208</sup> OECD, “Güney Avrupada Zirai Kalkınma,” quoted in Yerasimos, 214. However, in the above-mentioned graph Kazgan provides, the service sector is above 40 per cent of the GNP throughout the DP era. That graph is in nominal prices and neither of the authors explains what activities they include in the service sector.

<sup>209</sup> Kazgan, **Türkiye Ekonomisinde Krizler**, 104.

<sup>210</sup> Ibid, Table IV on page 112. Kazgan observes that during the DP era more than 80 per cent of Turkish exports were agricultural goods. 60 per cent of this share was provided by these goods mentioned above.

decreasing terms of trade for wheat.<sup>211</sup> As cotton and tobacco were the two most important niches in Turkish exports and usually provided the half of the total export earnings, producers in these sectors were better off throughout the DP era compared to producers of other agricultural goods.<sup>212</sup> Because tobacco was mostly produced by mid and small-size farmers, the level of accumulation in cotton production, which was mostly done by big-land owners, reached very high levels compared to those in tobacco sector. Especially in the Çukurova region, the cotton production increased due to mechanization, increased domestic demand for textiles, and favourable worldwide prices for cotton compared to wheat. The accumulation levels for big-land owners allowed them first to market their production themselves and then establish several cotton related factories, such as cotton gin, weaving, and textile in the course of time.<sup>213</sup> Also a private bank established in Adana in 1948 emerged as an important actor in the Turkish banking sector during the DP era. It became the agent of the big-land owners and the commercial bourgeoisie in this area where primitive and capitalist accumulation in agriculture had been higher than in any other region of the country since the mid 19<sup>th</sup> century.<sup>214</sup>

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<sup>211</sup> See the table Yerasimos provides on page 194 for details of exports and imports of wheat between 1946 and 1955.

<sup>212</sup> Yerasimos, 196, and Kazgan, **Türkiye Ekonomisinde Krizler**, 120. Kazgan notes that the composition of exports did not change significantly until 1970s. 85 per cent of it was agricultural products and half of this was in cotton and tobacco. The response of the cotton and tobacco producers to the declining terms of trade was different. Cotton producers increased the efficiency by decreasing production costs whereas tobacco producers increased the output by increasing the inputs, i.e. land and work force. See *ibid* for details. Yerasimos also points to the same response in a detailed analysis. See Yerasimos, 193-202.

<sup>213</sup> Keyder, 191-2. Keyder argues that some of the more fortunate big-land owners accumulated high amounts of surplus to engage in such businesses. At this point, the timeline of Sabancı Holding is quite interesting as Hacı Ömer Sabancı, the founding father of the Holding came to Adana in 1925 for cotton trading. Then, he became a shareholder in a cotton gin factory in 1932. In the early 1940s, he participated in the establishment of two vegetable oil factories. In 1948, the group founded Akbank. During the early 1950s, he bought 1000 acres of land and a cotton farm in Çukurova. In the mean time, he established textile, flour, and cotton gin factories under the name of BOSSA. In 1957 and 1961, he bought two other cotton farms. In the mean time, other enterprises were established such as an insurance company Aksigorta, ORALİTSA and SAPEKSA. By looking at this timeline one can argue that Sabancı's case is a merger of the three sub-classes in the Turkish bourgeoisie, trade and industrial bourgeoisie, and big-land ownership. See the timeline at [http://www.sabanci.com/st\\_tarihce.asp](http://www.sabanci.com/st_tarihce.asp), last retrieved, 6 May, 2006.

<sup>214</sup> Production for the world markets started in this era during the American Civil War, and with Armenian entrepreneurs the area's importance in cotton production for the market increased. After Armenians were expelled from the country, Turkish settlers appropriated their lands. Also the level of separation of subsistence farmers from their means of production was very high in this area compared with other regions of the country. For a short history of the area according to this two phenomena, see Keyder, 191-2. Yerasimos argues that the emergence of Akbank and other private banks disturbed the

The measures successive DP governments took after 1953 reached their limits in 1958. First of all, high inflation rates led to a tendency on the part of agricultural producers to sell a greater share of their products domestically instead of exporting them. Besides, possibility of devaluation in the currency led to stockpiling in these goods as well as other consumption goods.<sup>215</sup> Scarcity in major consumption goods arose again. The DP governments insisted on keeping the value of TL fixed since the 1954 crisis. However, the export subsidies and import taxations virtually meant devaluation in the currency. Despite all these measures, the exports did not increase enough to put back the liberal trade regime on track again. Black markets for hard currency emerged in the trade sector where the TL/US dollar parity was 10 times higher than the fixed parity. In this context, export earnings and earnings from inflated import prices were kept out of the economy, which further increased the restrictions on the imports. Although the protective measures helped the domestic industry to expand, the decrease in raw material and intermediary good imports affected their output levels. To make up for the decreasing imports, the DP government resorted to clearing and barter agreements again. After 1955, the amount of capital flows into the country decreased especially through foreign governments and international organizations. One reason behind this decrease was to force DP to adopt a stability programme to service Turkey's outstanding debts. Also the credibility of the country was quite low due to unpaid debt. This also affected the credits secured by the private banks and trade companies.<sup>216</sup> All

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industrial bourgeoisie and especially the ones that had close relationship with İş Bankası. These banks decreased the share of İş Bankası in the total volume of private banking. Besides, activities of most of these banks were not controlled by the government due to the credit scheme mentioned before. After the military intervention in 1960, most of these banks were shut down and İş Bankası restored its unrivalled status in private banking industry. See Yerasimos, 221-2 and 229 for the details of the internal class struggle along the banking industry lines.

<sup>215</sup> Kazgan notes that tobacco and mining products were two exceptions to this tendency. After the devaluation of 1958, cotton exports increased quite significantly as well as other export goods. Nevertheless, the deterioration in the international terms of trade for these goods prevented an increase in the export earnings after 1958. See Kazgan, **Türkiye Ekonomisinde Krizler**, 112-113 for details. Also see Table VI on page 112 for the percentages of exports and domestic supply in major export goods between 1949 and 1960.

<sup>216</sup> Before the 1958 stability programme, international organizations called Turkey to adopt a programme that would 'rationalize' the economic growth in the country. For instance in May, 1958 OEEC decided to cut the aid to Turkey unless Turkey adopted a stabilization programme. In June, they sent a mission to Ankara to introduce the stabilization package which included reforms in the agriculture sector (decrease in state subsidies, promotion of production for the market by large scale enterprises) as well as establishment of a planning organ which would oversee long term development targets. Long before this

these events culminated in Turkey's declaration of moratorium on its outstanding debt in 1958 and implementation of the first IMF stabilization programme.<sup>217</sup>

The stabilization programme came with debt consolidation, devaluation of TL, and additional foreign aid through the IMF, the US government, and the OEEC. The content of the stabilization programme was concerned with regulation of the banking sector by credit quotas and ceilings; designation of plans for government spending; abolition of domestic price controls and measures to control inflation.<sup>218</sup> These components of the stability program aimed at providing the macroeconomic stability and hence a debt servicing of Turkey. On the other hand, other components were the first steps to an institutionalized ISI strategy. The first component was the establishment of a trade regime which fixed import shares for different sectors of the economy. It also prohibited or restricted the imports of goods which were produced or were to be produced domestically. The second one was the establishment of a planning institution which would coordinate and rationalize the ISI strategies.<sup>219</sup>

The balance sheet of years between 1954 and 1958 demonstrates the importance of agriculture in Turkey's economy. The annual growth rate of agriculture during this period was 4 per cent, a third of the annual rate between 1950 and 1953. Although the industrial sector recorded an annual growth rate of 9.3 per cent, the annual GNP growth rate fell to 5.1 per cent from 11.3 per cent. The annual rate of inflation between 1954 and 1958 were 15 per cent almost 4 times higher than the 1950-53 average.<sup>220</sup> The fall in agricultural output also affected the export earnings of the

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plan, Council of Europe complained in a 1955 report about the price subsidies for agriculture in Turkey which kept domestic prices well above the world prices. See Yerasimos, 222-5 for details.

<sup>217</sup> Kazgan, **Türkiye Ekonomisinde Krizler**, 111-115.

<sup>218</sup> Ibid, 116-7. For details of stability programme, see Albayrak, 359-62

<sup>219</sup> Gülalp, 35. OEEC also recommended the establishment of such a planning institution. The import regime allocated 40 per cent share to capital and intermediary goods apiece. The share of consumption goods was 20 per cent. See Kazgan, **Türkiye Ekonomisinde Krizler**, 116-7 for details. The advised planning institution was established as a coordination council formed by 5 ministers of state. They oversaw the implementation of the stability programme. See Albayrak, 361. Boratav argues that the institutionalized ISI in the post 1960 period were in line with the content of the 1958 stability programme. See Boratav, **Türkiye İktisat Tarihi**, 109.

<sup>220</sup> Kazgan, **Türkiye Ekonomisinde Krizler**, 105. The figures are in real prices.

country. It was around 310 million US \$ and recorded the lowest amount in 1958 in the DP era by 247 million US \$.<sup>221</sup>

Starting with 1954, domestic class conflicts surfaced regarding the ‘appropriate’ development strategy Turkey should pursue. In fact, from the very early years of the DP tenure, DP government demonstrated the tendency to propel economic growth by investing in transportation and energy infrastructure, allocating generous credits to different sectors of the economy and promoting foreign direct investment and capital flows to the country. Although, the priority in ‘economic development’ was given to the agriculture sector, the expected benefits from the agricultural modernization did not materialize after 1953 when different policies for agricultural modernization started to reach their limits one by one. Nevertheless, policies to support agriculture continued after 1953. Besides, the DP governments increased the state investment in different sectors of the economy alongside transportation, such as energy, chemicals, arms, food processing, wood-pulp, and so forth. Some of the investments in these sectors started before 1953 but after 1954 state investment expanded and diversified into different sectors. DP policies after 1953 were demonstrating a tendency towards industrialization with ongoing populist policies targeting mostly the agriculture sector.<sup>222</sup> In the same period, the industrial bourgeoisie was content with state investment in industrial sector and infrastructure as they were mostly complimentary to the private investment. Nevertheless, they called for a development strategy which would give priority to the industrial sector and industrialization on the grounds that efficiency in the agriculture sector was limited due to weather conditions and archaic production methods. Besides, investment in industry had greater returns than the

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<sup>221</sup> The figures are calculated in US \$ from Table: 1945-1960 Döneminde Türkiye’nin Temel Ekonomik Göstergeleri, prepared by Hikmet Ulugbay, in Baskın Oran, ‘1945-1960 Batı Bloku Ekseninde Türkiye-1,’ in **Türk Dış Politikası**, 487. The amount of exports between 1950 and 1953 were 334 US \$ in average.

<sup>222</sup> It is interesting to see that in the post-1954 period, most of the state investment was concentrated on niches that were complimentary to the private sector and had little to do with alleviating the consumption goods scarcity in the domestic market. One exception to this was sugar beet factories. Another was investment in the textile sector. Also another factory was added to the wood-pulp industry in the DP era. The rest of the investment was concerned with energy, intermediary goods, and infrastructure. These investments were also used in public relations activities of the DP. In September, 1954 Adnan Menderes attended 2 factory openings (sugar beet factories) and 3 groundbreaking ceremonies for cement factories in 5 days. On the other hand, president Celal Bayar attended the opening ceremony of a power plant in Denizli in September. In October, he attended the groundbreaking ceremony for the Giresun Port. See Eroğul, 172.

agriculture sector because income elasticity for industrial goods was higher than that for agricultural goods in the context of increasing GDP per capita.<sup>223</sup> One year before this call, when the temporary policy measures against macroeconomic problems culminated in resurrection of the National Protection Law and targeted mostly the industrial and trade sectors of the economy, industrial and commercial bourgeoisie levelled harsh criticisms against the government because of these temporary policy measures including profit ceilings, arbitrary hard currency allocations, police measures and trials to enforce price controls, and so forth. Their criticism mainly stemmed from the fact that most of these policy measures were arbitrary, temporary, and without any proper rationale for a long term solution of the economy's structural problems. Besides, some of the measures, such as profit ceilings and crack down on stockpiling were threatening the continuation of the capital accumulation and the inviolability of private property.<sup>224</sup>

Once the stability package was put in practice, annual economic growth rate fell to 3.7 per cent between 1958 and 1960. The agricultural production fell significantly in 1959 and recorded a 0.3 per cent growth rate. In 1960, it grew by 2.3 per cent.<sup>225</sup> The credit regulation and measures against monetary expansion put into practice by the stability programme were effective in that fall.<sup>226</sup> Nevertheless, price subsidies continued in this period via Central Bank credits to make up for the decreasing output and deteriorating domestic terms of trade for agricultural products after the price

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<sup>223</sup> A report prepared by the protagonists of industrial and commercial bourgeoisie (Türkiye Ticaret Odaları, Sanayi Odaları ve Ticaret Borsası Birliği), in Z. Hatipoğlu, 'Türkiye'de Sanayileşme ve Yatırım Meseleleri,' in *Forum*, 1 February 1958, quoted in Kazgan, **Türkiye Ekonomisinde Krizler**, 123.

<sup>224</sup> These criticisms were levelled during the 8th plenary meeting of the above organizations in February, 1957. See Kazgan's quotation of the summary of these criticisms in **Forum**, "Odalar Birliği Kongresi," 15 February 1957, in **Tanzimattan 21. YY Türkiye Ekonomisi**, 87-8.

<sup>225</sup> Kazgan, **Türkiye Ekonomisinde Krizler**, Table 1, page, 100.

<sup>226</sup> Kazgan argues that despite this fall, the agricultural producers were not worse off because of favourable domestic terms of trade for agricultural products due to continued state subsidies for these products. See Kazgan, **Türkiye Ekonomisinde Krizler**, 119 and table V on page 108, for the domestic terms of trade throughout the DP era. On the other hand, Boratav argues that several studies about terms of trade give conflicting conclusion for agriculture. The calculation he makes from sectorwise price movements leads him to the conclusion that terms of trade between agriculture and industry fluctuated throughout the DP era with two exceptions. The first one is the post-1954 period where price controls deteriorated terms of trade for industrial goods. Second exception is the post-1958 period where terms of trade for agriculture deteriorated significantly after the price controls on industrial goods were lifted. Nevertheless, he adds that both deteriorations were around 25 per cent. See Boratav, **Türkiye İktisat Tarihi**, 113-114 for details.

controls were lifted on consumption goods.<sup>227</sup> The industrial sector recorded an annual 3.3 growth rate in this period with a continuing fall in the annual growth rates which fell to 0.4 per cent in 1960.<sup>228</sup> Although the import levels increased significantly after the stability programme was put in practice, the industrial sector witnessed many bankruptcies in these stagnation years due to outstanding debts and decreasing credit from the state and foreign sources. Some of the private banks that secured these loans also went bankrupt in these stagnation years and after the military intervention.<sup>229</sup>

The DP era ended with a military intervention on the 27<sup>th</sup> of May, 1960. Despite the fact that macroeconomic components of the stability programme were implemented and some of them bore fruit such as inflation control, limitation on money emission, and increasing export earnings, structural changes recommended by the IMF and OEEC programmes were not eagerly put in practice by the DP government.<sup>230</sup> For the founders of DP, state planning was already in practice since the very beginning of the DP tenure. Criticisms levelled from inside and outside the party ranks regarding the lack of state planning were answered in such a manner. For the commanding heights of DP, what others understood from state planning was putting back the ‘totalitarian’ rule of one party era in practice again. Their management of the economy would provide better performance than the ‘totalitarian rule’ thanks to ‘liberalism’ in politics and economy.<sup>231</sup> For the DP rulers, ‘economic development’ would be realized and this would consolidate the rule of DP and prevent the opposition’s coming to power due to

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<sup>227</sup> Yerasimos notes that after 1958 price subsidies through Central Bank credit rose above a quarter of the total credit allocated by the Bank. See Yerasimos, 228. Kazgan argues that due to this policy agriculture sector did not suffer from the falling output in income terms. See Kazgan, **Türkiye Ekonomisinde Krizler**, 119.

<sup>228</sup> *ibid*, Table 1, page, 100.

<sup>229</sup> *ibid*, 117-8.

<sup>230</sup> Inflation rose to 19.8 per cent in year 1959 due to devaluation in TL. However, in 1960 it fell to 5.4 per cent. Although money in circulation increased in 1959 and 1960, the percentage of the increase was around 11.9 per cent which was well below the increase in percentage between 1955 and 1957. Figures about inflation are taken from *ibid*, 118 about money circulation from *ibid* Table V on page, 108. The amount of exports increased to approximately 354 million US \$ in 1959. In 1960, it was 321 million US \$ approximately. Figures taken from Table. 1945-1960 Döneminde Türkiye’nin Temel Ekonomik Göstergeleri, prepared by Hikmet Ulugbay, in Baskin Oran, “1945-1960 Batı Bloku Ekseninde Türkiye-1,” in **Türk Dış Politikası**, 487.

<sup>231</sup> Albayrak provides interesting accounts from minutes of several party meetings regarding the attitude of the DP rulers against the calls for a planned economy. See Albayrak, 352-5 for details. Also Menderes in a public speech answered criticisms about lack of planning in the economy during the election campaign in 1954. He argued that the entire advanced world developed without a plan. A plan comprising every aspect of economy would only be in totalitarian countries. See Eroğul, 148 for details.

any failure in economic development.<sup>232</sup> Nevertheless, what the DP understood from economic development was sustaining the growth in the economy that was registered in the first 3 years of the DP tenure. Once the agricultural expansion reached its limits and economy started to stagnate, the DP mobilized all the policy tools at its disposal to sustain the economic growth with increasing state investment in the economy and continuing support to the agriculture sector.<sup>233</sup> The limits in these policy tools and dynamics of the capitalist world-economy dragged the economy into another crisis in 1958. However, the DP could not afford to undertake a structural change in the economy as advised by international organizations and called by the industrial and commercial bourgeoisie. Such a change would eradicate the support DP had received from the majority of the population which dealt with agricultural production. Consequently, DP opted for temporary measures and continuation of populist economic policies targeting its electoral base which further disturbed the industrial and commercial bourgeoisie. After the 1960 intervention, economic planning and ISI was institutionalized with the establishment of state organs to implement ISI strategies in line with the recommendations of international organizations. Preparation of five year development plans to implement ISI strategies became a constitutional clause with the 1961 constitution.<sup>234</sup>

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<sup>232</sup> Menderes' response to the opposition during the parliamentary sessions regarding the 1959 Budget in *Cumhuriyet*, 28 February, 1958, quoted in Eroğul, 253.

<sup>233</sup> Once the difficulties in the economy were felt in the form of scarcity of goods and arbitrary measures, the party ranks levelled harsh criticisms against the government. In November 1955, some MPs in the DP group decided to interpellate the government regarding the situation of the economy. They complained about the lack of planning in the economy in the face of economic hardships that affected daily lives of people. Their ongoing criticisms resulted with several resignations and only the Prime Minister Adnan Menderes got the vote of confidence. The fourth DP government was formed after this event. After this government was formed, DP increased its efforts to crack down on black markets and stockpiling. Government investments were to be made according to a plan. For details, see Eroğul, 183-9

<sup>234</sup> Kamil Ayanoglu, M. Cüneyd Düzyol, Niyazi İltter ve Cevdet Yılmaz, **Kamu Yatırım Projelerinin Planlanması ve Analizi**, (DPT: Ankara, 1996), retrieved from e-library of State Planning Organization from <http://www.dpt.gov.tr/dptweb/ekutup96/prjplan/prj-oku.html> , last accessed, 9 May 2006.

## CONCLUSION

The history of Turkey between the 19<sup>th</sup> century and 1960 was about the attempts to shift the peripheral articulation of the country to the capitalist world-economy to a semi-peripheral one. The turning points in this history were the articulation of the Ottoman economy to the capitalist world-economy as a periphery in the 19<sup>th</sup> century and the establishment of the modern Turkish state, which further institutionalized this articulation in the form of a nation-state. As demonstrated in this dissertation, the attempts to substitute the non-Muslim bourgeoisie with a Turkish one started in the early 20<sup>th</sup> century and by the time when the Republic was founded, majority of the non-Muslim bourgeoisie disappeared from the scene. In this context, Turkey demonstrated its willingness to continue to be a part of the capitalist world-economy during the National Economic Congress in 1923. The decisions adopted during the congress attest to this willingness and the chosen modality of articulation. They reflected the need to restore the war-torn economic activity and consolidation of the nascent Turkish bourgeoisie that was willing to assume the role of the disappeared non-Muslim bourgeoisie and diversify their activities in the domestic economy. The plans of the establishment regarding the regime of the new state were also reflected in the decisions adopted during the congress, such as the abolition of *aşar*. The ensuing reforms, such as the abrogation of the Caliphate, legalization of private property and existing usage of the tributary land, and adaptation of civil and commercial codes from Europe further removed the legal and ideological institutions of the tributary system. In this context, the 1920s were restoration years for the war-torn economy and establishment of institutions and adoption of policy measures to implement the capital accumulation model that was based on continuation of raw material exports and consumer goods imports. Although limited in scope compared with those of the 1930s, these policy measures and institutions helped Turkish bourgeoisie accumulate capital through trade. Nevertheless, the unequal exchange between the periphery and the core regions and dependence on agriculture sector for export earnings and economic growth dragged the country into a serious crisis during the Great Depression of 1929. After that, a new capital accumulation model was progressively institutionalized under the guidance of the state. It was based on mobilization of the domestic economy and

minimization of the effects of unequal exchange in the context of decreasing export earnings due to the worldwide economic slump. For this aim, during the 1930s, Turkey managed to establish some other very important institutions, such as the Central Bank, and implemented policy tools to minimize the effects of unequal exchange. Domestic substitution of main consumption goods and establishment of some intermediary goods industries by the state laid down the foundations of a national industrial base. Protective measures to minimize trade deficit created an environment for Turkish bourgeoisie to invest in productive sectors of the economy. Before WWII started, most of the consumption goods, such as textile, flour, and sugar that Turkey used to import were produced domestically. Besides, state investment diversified into energy and transportation infrastructure and intermediary goods, which would create an industrial base for domestic production of consumption goods. Before WWII, a plan was ready to be put in practice, which would further the state investment in those sectors and sell various consumption goods factories to private investors. Nevertheless, WWII shelved the plan and forced the establishment to adopt extraordinary measures to defend the country. Although there was no change in the capital accumulation model, the mobilization of the country slowed down the economic growth and prevented the implementation of the planned investments. Nevertheless, this did not prevent accumulation of capital by commercial bourgeoisie and big-land owners under war conditions. Scarcity in consumption goods and ensuing black markets, high inflation rates, and increased demand for Turkish exports provided a very suitable environment for these two factions in the Turkish bourgeoisie to accumulate capital at an unprecedented level. Once WWII was over and the capitalist world-economy was set to restore its expansion under the US hegemony, Turkey followed suit. The stress under the US hegemony was on free trade and market economy and liberalism in politics. These 'values' were progressively put in practice in Turkey. Under these circumstances, a new accumulation model was institutionalized which more or less restored the model in the 1920s. However, this time, the power of the Turkish bourgeoisie was much bigger than what it used to be during the 1920s and they were ready to get their share from the expanding pie in the capitalist world-economy without any state intervention. Besides, although still a peripheral country, Turkey had a greater industrial sector than what it

had in the 1920s, which would make a difference in terms of the composition of imported goods.

What brought DP to power was not only the aspiration of the Turkish bourgeoisie but also DP's discourse about free market and liberalism, which allured the majority of the population. The stress on agricultural improvement and bringing back the free market after the WWII years were alluring for the majority of the population who suffered the war conditions and extensive state intervention in the economy the most. In the initial years of the DP tenure, these promises seemed to work. Agricultural production increased due to mechanization and generous credit schemes from the government as well as land allocation. The economy was growing very fast. Export earnings were increasing due to high international demand for raw materials. The effects of the unequal exchange between periphery and core were remedied by increasing exports, high amounts of credit from foreign sources, and favourable terms of trade for raw materials. The favourable credit guarantees from the state also increased imports. Besides, the share of consumption goods in imports was around 20 per cent. The rest was used in investment in agriculture, infrastructure, construction, and industrial sectors of the economy. Overall, the investment in economy demonstrated a tendency to supply the domestic market in the face of increasing purchasing power of consumers. However, the limitations in the agriculture sector and the deterioration in the terms of trade for agricultural goods reached a point where Turkey could not sustain the liberal trade regime. The limitations in agriculture did not only affect the export earnings but also the domestic market in the form of scarcities in major consumption goods, such as wheat. Despite all the efforts to improve the conditions of the agriculture sector, production methods were still archaic; subsistence farming was widespread; and output was to a large extent dependent on climatic conditions. Besides, as producers for the market were well aware of the deterioration of terms of trade for several agricultural goods, they abstained from producing them, which was the case in wheat. Any disruption in the agriculture sector was prone to affect the capital accumulation model. To make up for the decreasing export earnings, DP resorted to import restrictions and tariff walls. This policy move affected the sectors of the economy that were dependent on imports of intermediary goods as well as the commercial bourgeoisie that thrived on

imports of consumer goods. The credit guarantees were extended to sustain imports. However, foreign credit was decreasing from both formal and private sources in the face of mounting outstanding debts of Turkey. The disruption in flow of consumption goods to the domestic market in the face of protective measures impelled the commercial bourgeoisie and the MNCs to establish domestic manufacturing companies in Turkey. The aim was to dodge the increasing protective measures and benefit from the 1954 law regarding foreign direct investment. The expansion in the capitalist world-economy and increasing domestic demand for durable consumer goods were effective in the decision of the commercial bourgeoisie and the MNCs to embark on green-field investment in Turkey via joint ventures or licence agreements. On the other hand, to sustain the economic growth of the early 1950s, DP increased public investment in infrastructure, energy, consumption and intermediary goods sector after 1953. Alongside this, DP continued to support the agriculture sector via price supports and cheap credits. Nevertheless, the agricultural output and export earnings did not increase as expected. Although the economy continued to grow after 1953, this growth and the international terms of trade for Turkish exports was not enough to put back the liberal trade regime back in track. The problems in the economy got worse as the reasons behind these problems were not solved despite the efforts of DP to increase exports earnings of the country. As a result, the economy suffered another crisis in 1958, which forced Turkey to declare moratorium on its outstanding debts. The debt consolidation and further credit from the US and international organizations came with a stability programme which enforced a trade regime that allocated 80 per cent of imports to capital and intermediary goods to be used in domestic production. This trade regime also prohibited the importation of goods that were produced or were to be produced domestically. After these stipulations the stability programme advised the abolishment of protective measures. The stability programme laid down the institutional foundation of the ISI that was already put in practice by local producers and foreign direct investment. Nevertheless, the austerity measures stipulated by the programme to improve macroeconomic indicators and make Turkey service its outstanding debts further slowed down the economy. The benefits of the programme and the ISI that came with it were to bear fruit in the 1960s.

The DP era witnessed economic growth, increase in the GDP per capita, urbanization and changes in other indicators that are used to ‘measure’ development. In this dissertation, several of these indicators have been used not to measure economic development but to put the transformation of the different factions of the Turkish bourgeoisie in a historical and quantitative perspective. Bearing in mind the arguments of the WSA regarding ‘development’, it is useful to analyse what opportunities were available during the DP era regarding a status shift and how they were used by the capitalist class and DP in Turkey. Although the first attempt to a status shift in Turkey happened after the Great Depression, this attempt was made on an almost inexistent industrial base. Thus, it was rather an attempt from scratch. It was a successful attempt bearing in mind the targets of the policies. Major consumption goods of the time were domestically produced and dependence on imports for these goods was almost removed by the end of 1930s. Besides, several industries were established and energy and transportation infrastructure were improved, which would compliment private industries that were bourgeoning around big scale industries in the country. The export composition of the country, with the exception of increasing share of raw materials from the mining sector, did not change significantly. The crisis in the capitalist world-economy and the relative weakness of the trade and land bourgeoisie created a suitable environment for the state to implement the policies towards industrialization and import substitution. During the early years of the 1930s, the domestic consumption was repressed via taxation to finance state investment in infrastructure and economy as well as to service the Ottoman and Republic debts. The state did not resort to foreign credit as much as it did to repression of the domestic consumption to finance state investment and help capital accumulation. The transfer of wealth from consumers to state benefited mostly the industrial sector as they were exempt from taxation, and they benefited from the externalities created by the state investment. In sum, the 1930s were the years of strategy of seizing the chance. Nevertheless, this seizure did not mean any status shift for Turkey. Rather, it laid down the foundations of a national industrial base that would provide the domestic market with consumer goods, not necessarily the core consumer durables but basic ones that were imported before, such as flour, sugar, textiles, as well as some intermediary goods for industrial production, such as steel and chemicals.

In the 1950s, things were different from the 1930s in several ways. First of all, the capitalist world-economy was in an expansion cycle as well as Turkey. The increasing purchasing power of the consumers increased the demand for consumer durables that constituted the core goods of the time. The demand for consumer durables was initially supplied by imports. Once these imports started to decrease due to the restrictions, the MNCs and their local agents tried to continue this flow by engaging in green-field investment. As Wallerstein puts it, it was the strategy of promotion by invitation. It happened when the capitalist world-economy was in an expansionist cycle under US hegemony. It was in the DP era this strategy was virtually put in practice by the restrictions on the trade regime and the 1954 law of foreign investment. The favourable context provided by these two events paved the way to the second round towards shifting to the semi-peripheral status. On the other hand, the existing industrial production increased during the DP era with further investment in the consumer goods sector, such as food processing, textiles, tobacco, and spirits. However, the introduction of core consumer durables to the industrial sector as well as their side sectors changed the composition of the industrial production. Besides, the decreasing import volumes due to restrictions affected the construction sector that expanded quite significantly in the early years of the DP tenure. Nevertheless, in that sector import substitution was successful due to a few cement factories established by the state and further investment in the iron-and steel industry. Thus, the increase in the industrial sector did not only happen in the existing sectors but also new ones that came from core regions of the capitalist world-economy as well as some other sectors in which the country did invest little before. Although the promotion by invitation strategy started to flourish in the mid-1950s, the export composition of the country, which was predominantly formed by agricultural products, did not change until the late 1970s. The mechanization in the sector increased export earnings to unprecedented levels in the Republic's history. Nevertheless, due to the composition of the exports and decreasing terms of trade for the exports goods of the country starting with 1954, Turkey suffered from unequal exchange as a peripheral region for most of the DP tenure. The DP policies targeting the agriculture sector partially sustained this exposure although they contributed to introduce extensive mechanization and hence increase efficiency in a sector with backward production methods. Besides, DP' policies to sustain economic growth and

register economic development also helped deteriorate the exposure to unequal exchange as imports increased not only for consumption goods but also for investment goods. Unlike the 1930s, there was not any enduring pressure on the consumers to shrink domestic demand and transfer wealth from ordinary consumers to finance specific development targets. This would mean the end of DP in political terms. Nevertheless, the temporal and arbitrary measures to alleviate the hardships arising out of Turkey's status in the capitalist world-economy, and DP's continuing support for agriculture, despite the fact that the sector could not deliver the expected results lowered DP's credibility in the eyes of not only some factions in the Turkish bourgeoisie but also wage-earners and city dwellers. It also delayed the institutionalization of ISI that might have delivered better results than the arbitrary and temporary measures between 1954 and 1958.

Before concluding, it is worth remembering Emmanuel's argument that it is rather the producer (low-wage, and to a lesser extent low-skill) not the product that leads to unequal exchange. Although it is hard to find comparative statistical figures about wage-levels in Turkey during the periods covered in the dissertation, Şevket Pamuk's study of GDP per capita in terms of purchasing power parity (in 1990 prices) between 1880 and 2000 gives an idea about Turkey's relative status in the capitalist world economy and supports Emmanuel's statement. According to Pamuk's findings, in 1913, GDP per capita in Turkey was 1200 US \$. It was 5301 US \$ in the US, and 3688 US \$ in West Europe. In 1950, the figures were 1600, 9561, and 5013 US \$ respectively. In South Europe, which is usually compared with Turkey because of its peripheral status throughout the most of the 20<sup>th</sup> century, the GDP per capita was 2282 US \$ in 1913, and 2897 US \$ in 1950.<sup>235</sup> Bearing in mind these figures and the situation of the Turkish economy in the first half of the 20<sup>th</sup> century and the DP era as explained in the dissertation, it could be argued that Turkey was in the group of countries that 'dirtied whatever they touched'. Nevertheless, it should be remembered that in none of these periods covered in the dissertation Turkey attempted to export the consumer goods that it started to produce domestically. Thus, it is hard to see the effect of

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<sup>235</sup> For the details of the methodology of his study see, Şevket Pamuk, "Karşılaştırmalı Açından Türkiye'de İktisadi Büyüme, 1880-2000," in **Küresel Düzen: Birikim, Devlet ve Sınıflar**, 383-7. The figures are taken from the table 1 on page, 389.

‘dirtying whatever they touch’ in Turkey for manufactured goods. Rather, it was exposure to the changes in the terms of trade for Turkey’s major export goods (agricultural goods), which dragged the country into several crises and led to changes in the capital accumulation models. The effect Emmanuel posits were to be observed significantly in Turkey starting with the 1980s when the country switched to an export-led growth strategy and tried to compete in the world markets via its domestically produced consumer durables and other manufactured goods under repressed wage-levels. The legacy of the DP era to the 1980s and today’s Turkey is the introduction of consumer durables manufacturing in Turkey for the domestic markets thanks to the increased purchasing power of consumers and the restrictions on free trade due to the balance of payments issues. This laid down the foundations of shifting to a semi-peripheral status in the capitalist world-economy within the framework of ‘promotion by invitation’. The ISI strategies during the 1960s and 1970s were implemented in the country on these foundations and they provided Turkey with a nascent export base that would be mobilized and diversified starting with the 1980s.

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