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MERCHANTS & THE STATE IN TURKEY -FROM EMPIRE TO REPUBLIC-

by

M.Asım Karaömerlioğlu

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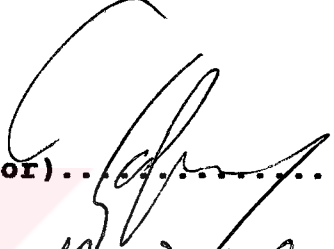
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MERCHANTS & THE STATE IN TURKEY -FROM EMPIRE TO REPUBLIC-

APPROVED BY:

PROF. DR. ZAFER TOPRAK (Supervisor)..... 

DOC. DR. SELİM DERİNGİL..... 

DOC. DR. EDHEM ELDEM..... 

DATE OF APPROVAL:

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ABSTRACT

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This thesis covers the place of merchants and their world view in the transition period from Empire to Republic in Turkey. Merchants functioned as the most important link with the world economy. In that sense, merchants had a very specific position in the economy of the early Republican era.

A proper understanding of the social history of this period transition requires not only the analysis of concrete realizations but also that of projects, proposals and expectations of this social stratum which were not necessarily implemented.

Besides, interaction between the state and these merchants also provide important clues to the nature of the state ideology and policies of the time.

İMPARATORLUKTAN CUMHURİYET'E TÜRKİYE'DE TUCCAR VE DEVLET

ÖZET

Bu tez İmparatorluktan Cumhuriyet'e geçiş süreci içinde İstanbul tüccarının yerini ve düşünsel dünyasını ele aldı. Bu dönem süresinde tüccarların dünya ekonomisi ile bağlantısının en önemli taşıyıcısı olmaları anlamında genç Cumhuriyet ekonomisinde özel bir yerleri oldu.

İstanbul tüccarının sadece gerçekleşen değil hayata geçirilememiş projeleri, önerileri ve beklentileri de sosyal tarih açısından ele alınmaya çalışıldı.

Tüccarlarla devlet arasındaki ilişkiler aynı zamanda incelen dönemdeki devlet ideolojisi ve iktisadi devlet politikaları hakkında da önemli ipuçları vermektedir.

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Naturally, all the deficiencies are wholly my responsibility.

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INTRODUCTION

Understanding the economic aspects of the transition from the Ottoman Empire to the Turkish Republic is the major motive for the context of this thesis. The foundation of the Republic was generally considered to be the breakaway point in the economic policies as well. In order to check the validity of this argument, I shall be focusing on the mercantile interests in general and the Istanbul Chamber of Commerce and Industry in particular. It is obvious that the merchants and industrialists rapidly differentiated with respect to their nationality during the transition period. Nevertheless, the role of commerce in the economy on the whole remained the same. Focusing on the merchants may provide useful elements for interpreting the above-mentioned argument because of the significant economic role played by the merchants in the period at issue.

Theoretically any national economy operates within the borders of the world economy. This is true especially for the period until the world depression of 1929 since the laissez-faire policies, by and large, dominated throughout the major centers of the world economy until that time. As a consequence of this, the role of the merchants became vital for the integration into the world market. In that sense, it is essential to grasp the main economic atmosphere of the world economy in the 1920s in order to interpret the position of the merchants.

After analyzing the main macro-economic dynamics of the 1920s in the world, I shall be summarizing, as a more concrete case, the Turkish economy in the 1920s. This chapter will not be concerned with a detailed survey of the economy but rather with the context within which the merchants and the industrialists operated.

The native merchants in the Ottoman Empire were organized under the Istanbul Chamber of Commerce from the 1880s onwards. It is therefore appropriate to focus on the Chamber to represent the world view of the merchants. For that reason, I think it is necessary to highlight the history of the Chamber.

The foundation of the Republic became the turning point in the history of the Chamber. It was the "nationalization" of the Chamber which characterized this turning point. In this process the Turkish National Trade Association (Milli Türk Ticaret Birliği) played an important role which is worth studying in detail since the Turkish merchants conducted a serious struggle against the cosmopolitan character of the Chamber with the help of this association. In addition to the activities of the Association, the legislative regulations of the time favored Turkish merchants. The Law of Chambers of Commerce and Industry which passed on May 14, 1925 became the legislative basis through which the Turkish merchants could strengthen their positions against the non-Muslim intermediaries. These

legislative regulations will be covered in the subsequent sections as well.

It is nearly impossible to understand the economic policies and objectives in the 1920s without analyzing the Izmir Economic Congress of 1923. However, this analysis is impossible without understanding the role of the Istanbul merchants who apparently determined the general trends of the manifestations declared by the Congress. In that sense, I shall be discussing the Izmir Economic Congress in detail.

One of the most important documents of the Chamber is the report prepared in 1924. This report which focuses on the socio-economic conditions of Istanbul is significant in two respects. First of all, it includes extraordinary comments and analysis of the Turkish bourgeoisie of the time. Secondly, it provides reliable data about economic life in Istanbul. When the economic development of Istanbul within the young Republic is considered, the data in the Report could be related to more than merely the economy of a single city. In addition to these, the political impact of the Report is worth studying.

The Journals of the Chamber provide sufficient data about the attitude of the bourgeoisie in general and the merchants in particular. I selected three specific topics. They were not only one of the major concerns of the Chamber throughout the 1920s but were indicative of the general characteristics of their ideology as well.

The first one is the attitude towards the monopolies, especially towards the Regie of tobacco. In the 1920s and before, granting monopolistic privileges had created strong oppositions among different classes. Especially the merchants under the flag of the free trade⁶ were the most prominent of them. In the discussions about the monopolies, one can clearly observe the merchants ideology in their arguments.

The second specific topic is the discussions and the proposals of the Chamber related to the Law for the Encouragement of Industry of 1927. Through the materials on the subject it is possible not only to see the condition of the domestic industry of the time, the relations with foreign capital, etc but also the contradictions in the Chamber, namely between the merchants and the industrialists.

Especially in the second half of the 1920s, inflation was a major social and economic problem. The third topic I shall focus on is the arguments of the Chamber when they were explaining the causes of the inflation. These arguments may give an idea about the opinion and the attitude of the Chamber on the historical and economical issues.

In summary, my main concern in this thesis is to analyze the socio-economic life of Turkey in the 1920s through the eyes of the Istanbul merchants. Since they were the most important economic power of the era, their arguments, desires, critiques and proposals may be helpful

in understanding some elements of the global history of Turkey in the 1920s.



THE GENERAL ECONOMIC ATMOSPHERE OF THE 1920s IN THE WORLD

In order to understand the macro-economic dynamics of the 1920s in Turkey, it is necessary to have some knowledge of the world economy in global terms. In fact, the late Ottoman Empire from the 18th century onwards had shown a considerable response to the fluctuations in the world economy at large.

In the economic reports of the era, close links of the Ottoman Empire with the world economy can easily be detected. For instance, in such an economic report the merchants were complaining about a single day delay of information coming from the London, Winnipeg and Chicago stock exchanges.¹ This example reflects a significant sensitivity of the Ottoman Economy to the outside world. As compared to the previous decades, such a sensitivity was intensified during the 1920s. The nationalist economic policy induced by the World War I was over.

Consequently, it was no surprise that the Turkish Economy became deeply dependent on the world wide fluctuations. Turkey was then a peripheral economy most of the economical activities of which, by and large, were affected and, to some extent, determined by the center.

¹.C. KEYDER, *The Definition of a Peripheral Economy: Turkey 1923-1929*, Cambridge, 1981, p. 43

Therefore, it is necessary to have a brief description of the global economic atmosphere of the world in the 1920s.

The most striking development in the world economy in the 1920s was the decline of the British economic power which began in fact before the World War I. As Kenwood and Lougheed argues:

"The consequent stagnation of the British economy and the associated decline in Britain's international commercial and financial position goes a long way towards explaining the failure of the international economy to function as smoothly during the 1920s as it had before 1914."²

The fact that the British Pound was no more accepted as a world money from 1914 onwards was a qualitative indicator of the British economic failure. However, this power was not replaced by any other hegemonic economy until the end of the Second World War and this led to a decentralization of the world economy as a whole and to a decrease in the world trade as compared to the previous decade.³

In fact, the 1920s witnessed an unsuccessful attempt to restore the previous international liberal economic policies.⁴ The indent of that decade was deeply conservative

².A.G. KENWOOD & A.L. LOUGHEED, *The Growth of the International Economy 1820-1960*; London, 1971, p. 185

³.i. TEKELI & S. İLKİN, *1929 Dünya Buhranında Türkiye'nin İktisadi Politika Arayışları*, Ankara, 1977, p. 7.

⁴.E.J. HOBBSAWM, 'Tarihi Perspektif İçinde Kapitalizmin Bunalımı', in *Dünya Kapitalizminin Bunalımı*, edited by Satlıgan & Savran, İstanbul, 1988, p. 80.

and expressed almost universal conviction that only the re-establishment of the pre-1914 system, "this time on solid foundations, could restore peace and prosperity."⁵ On the other hand, the war economy of 1914-1918 already led to a qualitative increase in the level of state intervention into the economic life. As Hobsbawm accurately observes:

"Inter-war Europe also happened to see the triumph of that other aspect of the 'bourgeois' nation...the nation as 'national economy'. Though most economists, businessmen and western governments dreamed of a return to the world economy of 1913, this proved to be impossible. Indeed, even had it been, there could have been no return to the economy of freely competitive private enterprise and free trade which was the ideal, and even part of the reality of the world economy in the heyday of British global supremacy. By 1913 capitalist economies were already moving rapidly in the direction of the large blocks of concentrated enterprise, supported, protected, and even to some extent guided by governments."⁶

The intensification of protectionism was observed also in the extremely industrialized countries such as the USA and Britain. In Britain, in addition to the McKenna Act of 1915, further protection to British industry was afforded by the Safe-guarding of Industries Act and the Dyestuffs Importation Act, both passed in 1921, which placed duties on the products of a number of key industries, including optical glass and instruments, considered to be vital for national

⁵K. POLANYI, *The Great Transformation*—the political and economic origins of our time—, Rinehart & Company, Inc., 1957, p. 22.

⁶E.J. HOBBSAWM, *Nations And Nationalism Since 1780*, Cambridge, 1990, p. 131.

security, and prohibited the importation of all synthetic dyestuffs and intermediate products. Even more crucial for the well-being of the international economy was the introduction by the United States of the Fordney-McCumber Tariff of 1922. This Act, which raised the American tariffs to the highest level in the country's history up to that time, was utterly inconsistent with the new found role of the United States as the world's most important creditor nation.⁷

The Great Depression of 1929 is overwhelmingly accepted as a turning point as far as the major economic policies of the world economy are concerned. It is not incorrect to say that this period was a transitory period in which two attitudes towards the economical affairs coexisted. Although it is very difficult to characterize the 1920s as such, it seems that the "liberal" economic policies dominated in most part of the world. Despite the growing counter tendency, a declaration of the League of Nations of 1927 reflects the dominant paradigm of the era. As declared by the League Conference of economic experts in 1927:

"Any strictly nationalist policy is harmful not only to the nations which practises it but also to the others, and therefore defeats its own end, and if it be desired that the new state of mind revealed by the Conference should lead rapidly to practical results, any programme of execution must include, as an essential factor, the principle of parallel or concerted action by the different nations. Every country will then know that the concessions it is asked to make will be balanced by corresponding sacrifices on the part of the other countries. It will be able to accept the proposed

⁷.A.G. KENWOOD & A.L. LOUGHEED, (1971), p. 186.

measures, not merely in view of its own individual position, but also because it is interested in the success of the general plan laid down by the Conference (Carr's emphasis)."⁸

The Latin American example of twenties supports the existence of the dominance of "free trade" policies which were applied until 1929. These countries were overwhelmingly export-oriented economies specialized in a limited number of commodities.⁹ This was also true for the Turkish case. The following example reflects the export dependent nature of the Turkish economy of the time. As USA imposed strict investigation for Turkish tobacco in 1926 as a means of protection, the total amount of Turkish export sharply fell since one third of the total export products was tobacco at that time.¹⁰ (this was also due to the downward pressure on prices of primary products because of increased productivity and the opening up of new areas of production which was also a characteristic of the decade.)¹¹

On the other hand, whatever the economists claimed about the economic policy, it was possible to see the

⁸.Quoted by E.H. CARR, *The Twenty Years' Crisis 1919-1939*, Hong Kong, 1989 (First published in 1939).p 55, League of Nations: C.E.I.44, p. 21 (italics in original). Similar international conferences recommending the similar opinion about a free trade approach were held at Brussels in 1920, at Portorose in 1921 and at Genoa in 1922. (Lewis 1970, p. 36, also p. 48).

⁹.H. GÜLALP, *Gelişme Stratejileri ve Gelişme İdeolojileri*, Ankara, 1983.p 18.

¹⁰.İ. TEKELİ & S. İLKİN (1977), p. 42.

¹¹.A.G. KENWOOD & A.L. LOUGHEED, (1971), p. 177.

contradictory characteristics of the era. As Polanyi points out:

"Import quotas, moratoria and stand-still agreements, clearing systems and bilateral trade treaties, barter arrangements, amergoes on capital exports, foreign trade controls, and exchange equalization funds developed in most countries to meet the same set of circumstances. Yet the incubus of the self-sufficiency haunted the steps taken in protection of the currency. While the intent was the freeing of the trade, the effect was its strangulation. Instead of gaining access to the markets of the world, the governments, by their own acts, were barring their own countries from any international nexus, and everincreasing sacrifices were needed to keep even a trickle of trade flowing. The frantic efforts to protect the external value of the currency as a medium of foreign trade drove the peoples, against their will, into an autarchized economy. The whole arsenal of restrictive measures, which formed a radical departure from traditional economics, was actually the outcome of conservative free trade purposes."¹²

Another measure was taken in 1919 restricting the emigration of workers in Europe. When considered in the context of the laissez-faire it was impossible to accept the existence of such a measure. The pioneer of the laissez-faire, the United Kingdom, resisted to the measure but as late as 1931 the Government also accepted it.¹³ In fact, this was due to the nationalistic economic policies which gradually began to dominate after the World War I.

¹²K. POLANYI, *The Great Transformation*—the political and economic origins of our time—, Rinehart & Company, Inc., 1957, p. 27.

¹³E.H. CARR, *Milliyetçilik ve Sonrası*, Istanbul, 1990(1945), p. 26.

When the significance of the world trade is considered throughout the twenties, it is worth to talk about the currency problem. As pointed out by Polanyi:

"The root cause of the crisis, we submit, was the threatening collapse of the international economic system. It had only haltingly functioned since the turn of the century, and the Great War and the Treaties had wrecked it finally. This became apparent in the twenties when there was hardly an internal crisis in Europe that did not reach its climax on an issue of external economy. Students of politics now grouped the various countries, not according to the continents, but according to the degree of adherence to a sound currency... currency had become the pivot of national politics. Under a modern money economy nobody could fail to experience daily the shrinking or expanding of the financial yardstick; populations became currency-conscious; the effect of inflation on real income was discounted in advance by the masses; men and women everywhere appeared to regard stable money as the supreme need of human society. But such awareness was inseparable from the recognition that the foundations of the currency might depend upon political factors outside the national boundaries. Thus the social bouleversement which shook confidence in the inherent stability of the monetary medium shattered also the naive concept of financial sovereignty in an interdependent economy. Henceforth, internal crises associated with the currency would tend to raise grave external issues."¹⁴

Though the quotation might seem lengthy, it was necessary to represent the significance of the currency problem. In the twenties some currencies such as the Russian, the German, the Austrian and the Hungarian ones, were wiped out within a year by the violent inflation which affected these countries.¹⁵ These crises occurring within

¹⁴.K. POLANYI (1957), pp. 23-24.

¹⁵.A.W. LEWIS, *Economic Survey, 1919-1939* London, 1970, First published in 1949, p. 32.

the national boundaries were not interesting at all for the unprecedented rate of change compared to the pre-existing value of the currencies but that these took place in a completely monetarized economy.

In the second half of the 1920s, Turkey experienced a general economic crisis as a result of the recession in the commodity markets and the foreign exchange shortage which in turn caused the breakdown of the banking credits. In addition to this, there was another foreign exchange crisis in 1923. Although the crisis in Turkey had its own specific characteristics it is essential that the similar problem in many countries be taken account in order to interpret the problem in Turkey.

In the period after the World War I until the 1929 Great Depression, there seemed to experience a general economic boom throughout the world. In the twenties, especially after 1925, the time when most countries reached the production level of their 1913 values¹⁶, trade revived rapidly and was probably growing faster than world output towards the end of the decade.¹⁷ Between 1919 and 1921 the acceleration of the economic expansion was due to the effective demand created by the War. In 1921, however, with the decline in the demand for the consumption goods, the

¹⁶.A.W. LEWIS, (1970), p. 34. For him 1925 was not only a turning point in economic activities but in European politics as well.

¹⁷.A.G. KENWOOD & A.L. LOUGHEED, (1971), p. 222.

prices sharply fell generating the first economic crises after the War.¹⁸ The time between 1922 and 1929 witnessed an economic boom although in some European countries there were recessions in 1926 and in 1927.¹⁹ As Lewis points out:

"In the United States a constructional boom got going as early as 1922, and in that country all the years from 1922 to 1929 are counted as a boom period. So also in France, where the expenditure on restoring war areas brought a high level of employment from 1922 onwards, and in Japan, where the earthquake of 1923 was followed by a reconstruction boom."²⁰

The 1926 and 1927 crises of some of the developed countries of Europe such as Great Britain were also somehow reflected to the Turkish economy as we can see it in the following data:

GNP of Turkey		(million TL)					
	1923	1924	1925	1926	1927	1928	1929
	633,1	758,4	846,2	981,8	892,3	990,9	1150,1
INCREASE %	19,8	11,6	16,0	-9,1		11,0	11,7

(Compared with the 1938 prices)²¹

It is only in 1926 and in 1927 that GNP decreased in line with the recession. To conclude about the 1920s, Lewis argues as follows:

¹⁸A.W. LEWIS, (1970), p. 19.

¹⁹I. TEKELİ & S. İLKİN (1977), p. 3.

²⁰A.W. LEWIS, (1970), p. 33.

²¹I. TEKELİ & S. İLKİN (1977), p. 35.

"It is easier now to assess the second half of the twenties than it was at the time. The current view was dominated by rising prosperity, so largely associated with American expansion and American lending. The war and its strains were being forgotten. But we can see now that if 1919-1925 was a period obviously dominated by the effects of the war, 1925-29 was just as much a period of readjustment to the effects of the war, though these effects were no longer visible on the surface. Problems left by the war remained unsolved, especially the creation of a stable international currency system, the adjustment of the size of the agricultural economy, and the reorientation of Britain, of Germany and of France in the post-war world. So soon as America ceased to expand and to lend, then underlying maladjustments were to come out and to take charge."²²

In fact, Turkey as a peripheral economy was deeply influenced by the centers of the world economy and their effects can not be elaborated without understanding the global system as a whole.

²².A.W. LEWIS, (1970), p. 50.

A BRIEF ECONOMIC PICTURE OF THE TURKISH
ECONOMY IN THE 1920s.

To figure out the role played by the merchants and the industrialists in the 1920s the focus on the brief economic history of the era is essential. Since the context of the thesis is limited to these strata, the agricultural sector, which constitutes a thesis topic in itself, is not covered.

In the 1920s very important official measures were approved by the Republican Government to improve the economic development. In 1924 the Civil Code, emulating the Swiss one, established the precondition for private property. As Mardin argues the official regulations approved in the beginning of the 1920s had created new commercial channels through which the importance of the market relations grew.¹

An important factor relating to the economy during the 1920s was the economic implications of the Treaty of Lausanne. With this Treaty the Capitulations were abolished. As stated in the article 28: "Each of the High Contracting Parties hereby accepts, in so far as it is concerned, the complete abolition of the capitulations in Turkey in every

¹.S. MARDIN, *Türk Modernleşmesi*, Toplu Eserler-Makaleler 4, İletişim, 1991, p. 203.

respect."² The abolition of the Capitulations was a necessary but not a sufficient requirement for the new regime to implement economic independence. On the other hand, this abolition also had adverse effects to the economy because the economic system were, by and large, operating under this capitulatory system. Some foreign capitals, frightened by the nationalization practises liquidated their enterprises. For instance, the *cabotage* adversely affected by the trade which gave rise to risks in transportation since the Turkish equipment and experience were insufficient. This, in turn, lead to a large increase in commodity prices.

Another important implication of the treaty was the settlement of the Ottoman Debts. The size of the total debt by 1924 was fixed at 129,384,910 Turkish gold pounds and the yearly payments at 8,664,306 Turkish gold pounds. It was accepted by the concerning parties in the Conference that no payments should have been paid until the end of the 1920s.

Besides, Turkey was obliged to recognize in principle the Ottoman Order of October 29, 1914 which lead to the Ankara Government to restrict the freedom of action on the customs duties until 1929. This point was especially important on many respects. It directly affected the fiscal policy of the government, the balance of payments, the foreign currency control, and finally the implementation of

².Z.Y. HERSCHLAG, *Turkey, the Challenge of Growth*, Netherlands, 1968, p.18.

a foreign trade policy which could protect local industries or certain local products. Until 1929, the Ottoman customs tariffs of 1916 remained the same. The outcome of these restrictions, it is usually claimed, was the main reason for the obstacle of implementing a national protected industry and a national trade policy. Contrary to the existence of these effects, the Turkish state found new ways of overcoming the adverse effects of the Treaty such as implementing monopolies for several significant items.

The relations between the state and the individuals (entrepreneurs) constituted the major point of discussion in the 1920s. However, the complaints of the private entrepreneur sector about state interventionism was not due to statist policies as was the case in the 1930s. This era witnessed a "liberal" approach of the state to the economy. Contrary to the 1930s, the state did not directly take part in the economic life as an entrepreneur. Instead, encouragement of the private sector was the major policy. In addition to these, the state invested in infrastructure and in other areas which didn't provide short-term profit gains and hence, didn't attract the interest of the private sector. In April 1923 the Minister of Economy, Mahmut Esat Bey, explained the perspective of the new regime about the

statisation. He argued that the specific conditions of Turkey prevented the statist policies.³

The most important economic involvement of the state was railroad construction. The 1920s witnessed an enthusiastic attempt to restore the railroad construction all over the country. This attempt was determined by the necessity of integration of both the internal and the external markets. On the one hand, railroad construction would enable the expansion of the volume of foreign trade. The lines connecting Izmir to its rich hinterland accounted for 1314 kms which was 40 % of the total lines. These were induced by moving larger surpluses to the markets of Europe. On the other hand, and more significantly, the national economy was perceived to be developed by unifying the remote provinces of Anatolia into a single market. This project required, of course, a tremendous infrastructure investment which could only be afforded by the state. Such attempts was not specific to the Turkish experience. Railroad constructions sponsored by nationalist movements were

³."Madenlerin devletlestirilerek işletilmesi nazariyatca... milletlere büyük faideler temin eder...Fakat tatbik edilecek olan memleketin teşkilatı idariyesini nazarı itibare almak lazımdır.Bir memleketteyiz ki, devletlestirmek usulü, yani komünizmden bir adım geride olan usulü...kabul etmemişizdir ve memleket teşkilatını ona göre yapmamışızdır. Binaenaleyh, böyle bir memlekette devletlestirme usulü bittabi olamaz...Madenleri devletlestirme usulüyle idare etmek imkan ve ihtimali, bizim memleketin bugünkü teşkilatıyla, Teşkilatı esasisiyle mümkün değildir." Y.S. TEZEL, 'Büyük Millet Meclisi Anti-emperyalist mi idi?', *Ankara Üniversitesi Siyasal Bilgiler Fakültesi Dergisi*, V.25, no 4, December, 1970, p. 311.

financed by state budgets. The first five years of railroad construction after the unification of Italy in 1861 was not the only example of its kind.

By 1929 about 1000 kms of new lines had been completed. It was nearly half of the amount for which the parliament approved the funds in 1924. These state-owned lines also decreased the price of transportation which was of vital interest to merchants and industrialists since at that time foreign railroad companies had high tariff rates.⁴

Long before the foundation of the Turkish Republic the Ottoman Empire had already been integrated into the world economy. The economy was, by and large, sensitive to the price fluctuations and to the international economic parameters in the world. In many provinces of the Empire agricultural production was done mainly due to the demand created by the international markets. In turn, many foreign companies were operating in the domestic market which reflects a considerable integration into the world economy. The case of the Singer Sewing Machine Company exemplifies the trend:

"According to its records, the Singer Sewing Machine Company had nearly two hundred agencies or stores in Asiatic Turkey in 1918. In the larger towns there might be several agencies, for example four in Smyrna. These machines reputedly reached nearly every town and hamlet of importance, penetrating even the remote interior. In Asia Minor alone the company claimed forty agencies and eighty subagencies. Its machines were sold either di-

⁴.KEYDER C., *The Definition of a Peripheral Economy: Turkey 1923-1929*, Cambridge, 1981, p. 29.

rectly from the United States or from warehouses in Liverpool and Hamburg. Douglas Alexander, president of Singer, claimed he was estimating conservatively that his company did a gross business of one million dollars in Asiatic Turkey during a normal year."⁵

In the 1920s agriculture was the main channel of integration into the world economy. This was because the economic surplus was mainly produced in this sector. The Turkish economy was exporting agricultural products while importing manufactured goods due to the international division of labor. In the agricultural sector the farmers who held more than 200 donums were cash crop producers and their products were exported via the commercial capital.⁶

The role of foreign capital in the Turkish economy in the 1920s was more important than the nationalistic historians and economists estimated. It was argued that the dependence of the Turkish economy on foreign resources was not an issue observed after World War II but a phenomenon already present in the 1920s just after the foundation of the Turkish Republic. The decline of the inflow of foreign capital into Turkey in the 1930s was mainly due to the world conjecture amidst the economic depression and the War.⁷

The foreign investments played an important role in the Turkish economy during the period. As argued by Herschlag:

⁵J.A. DENOVO, *American Interests And Policies in the Middle East 1900-1930*, Minneapolis, 1963, p. 40.

⁶C. KEYDER, (1981) p. 16.

⁷Y.S. TEZEL, *Cumhuriyet Döneminin İktisadi Tarihi*, Ankara, 1986, p. 165.

"Foreign capital, in 1924, controlled 94 companies: 7 Railway companies; 6 mines; 11 municipal concessions; 23 banks; 12 industrial enterprises; 35 commercial companies. Capital invested in these companies stood at 63,444,000 pounds sterling, divided, according to national origin, as shown in the table below:

Germany	45.4
France	25.9
UK	16.9
Belgium	3.7
USA	1.8
Italy	1.2
Holland	0.9
Miscellaneous	4.2
Total	100.0 " ^a

Foreign capital in Turkey in 1924, according to origin, in % .

Two cement factories were established by a French and a Belgian company; an English company established a large cotton-gin factory in 1925 in Adana. Among the many others which can be mentioned were a *Nestle* factory in Istanbul, a Japanese silk factory in Bursa and several foreign pharmaceutical factories.

The number of foreign members of the Istanbul Chamber of Commerce and Industry in 1927 and 1928 may also give an

^a.Z.Y. HERSCHLAG, *Turkey, the Challenge of....*, pp. 40-41; according to the ICCI the shares of the private foreign capital was as follows: The French 1 million, The British 230 million and the German 552 million French Frank respectively, 'Turkiye'de Ecnebi Sermayesi', *Istanbul Ticaret ve Sanayi Odası Mecmuası*, December, 1923, p. 52.

idea about the extent of the presence of foreign capital in Turkey:⁹

	1927	1928		1927	1928
Greek	426	428	Spanish	50	56
Iranian	310	310	German	57	57
Italian	186	191	Bulgarian	48	48
British	94	102	Swiss	26	28
Soviet	95	95	Austrian	26	26
French	82	82	American	12	12

The Chester Project exemplifies the attitude of the young Republic towards foreign capital investments. According to the project an American company benefited from the minerals and petroleum resources for 99 years in an area of approximately 170,000 km². The company in turn offered to construct 4400 km railways and three seaports. This capitulatory contract was accepted in the Grand National Assembly on April 9, 1923.¹⁰ The Chester project was introduced to the world as an evidence for the support of foreign capital by the new regime and to the domestic politics as a key to solve the economic problems. A signifi-

⁹H.A. SANDA, *Istanbul Ticaret ve Sanayi Odası 1926-1927-1928 Seneleri Faaliyet ve Muamelatına Ait Umumi Rapor*, 1935, p. 196.

¹⁰Y.S. TEZEL, 'Büyük Millet Meclisi Anti-emperyalist mi idi?', *Ankara Üniversitesi Siyasal Bilgiler Fakültesi Dergisi*, V.25, no 4, December, 1970, p. 287; according to Mears who analyzed the project in 1924 the aim of granting the project in the opinion of Ankara was to make the USA support Turkey in the international diplomacy. See E.G.MEARS, *Modern Turkey, a politico-economic interpretation*, New York, 1924, The Macmillan Company, p. 572.

cant advocate of the Project, Rauf Bey, argued that the Chester Project would contribute to the formation of an integrated market. Moreover, this project was also supported for the national defense purposes of the country.¹¹

The Chester Project was perceived by the bureaucracy as an economic victory by which the national economy could prosper. However, the capitulate concessions were so enormous that the French and British delegation in Lausanne emphasized that this project created a contradictory situation with the previous principles asserted by the Turkish delegation in the former assembly. The French and The British delegation demanded an "open door policy" instead of this monopolistic attitude.¹²

Foreign capital had significant weight especially in the banking sector and in foreign trade. In the 1920s the credit markets were by and large under the control of foreign capital. Given the absence of a central bank the role of the banking credits became crucial because the volume of paper money was nearly constant.

¹¹.Ibid pp. 306-308. As early as 1924 the new regime had been willing to favor foreign capital. As Inonu argued: "Biz bir kaç sene kendi mesaimizle ilerlemeye mecburuz. Kendi mesaimizle diyordum fakat haricden gelecek bir serveti, bir muaveneti uzak tutmak fikriyle söylemiyorum. Haricden gelecek her hangi bir muavenet-i servet için bütün suhuletleri açmışız. Biz ciddi sermayedar istiyoruz.", 'İsmet Paşa'nın Beyanâtı', *İstanbul Ticaret ve Sanayi Odası Mecmuası*, August, 1340(1924), p. 445.

¹².S.L. MERAY, *Lozan Barış Konferansı*, Takım II, V2, Ankara, 1973, p. 231.

Also the related sectors of insurance and transportation were dominated by foreign capital.¹³ Most of these foreign companies were the branches of gigantic Western companies.¹⁴ The tobacco export to Trieste constitutes an example for the situation. Many companies in the export of tobacco were direct extensions of the Italian companies. About 53 % of this export in terms of value was directed to Trieste.¹⁵

In the transportation of the export operations the dominance of foreign capital was evident. The exported com-

¹³."In exporting, too, the insuring, transportation, and marketing of Turkey's exportables were undertaken by foreign capital. There were, for example, 44 foreign insurance companies operating in Turkey in 1928, whereas only nine Turkish insurance firms were in existence. Of those insurance companies established in the 1920s, 6 were owned by foreign capital and only two were registered as of entirely Turkish ownership." C. KEYDER, (1981), p. 88.

¹⁴."The contracting merchants and the trading firms who were in direct contact with the producers were themselves contracted to foreign purchasers. These foreign merchants, who were agents of manufacturing or large retail firms, arrived in Samsun or Izmir at harvest time in order to select and price the goods they were willing to buy for their companies. American tobacco purchasers, British and french agents buying figs, raisins, hazelnuts, and cotton thus conducted at least 50 % of the export trade." Ibid p. 87.

¹⁵.The trade with Trieste had a specific significance in the 1920s. The Turkish products were coming to the Trieste free port from where they were re-exported into Europe. Tekeli argued that it was because of the former Ottoman non-Muslim merchants who settled in Trieste. Even after the emergence of the Turkish Republic these merchants were able to retain their commercial ties with the commercial milieu in Turkey. For a detailed interpretation of the argument see I. TEKELI, in *Atatürk Döneminin Ekonomik ve Toplumsal Tarihiyle İlgili Sorunlar Sempozyumu, 14-16 Ocak 1977, İstanbul, İstanbul Yüksek İktisat ve Ticaret Mektebi Mezunları Derneği Yayınları*, p. 275.

modities were carried almost exclusively by foreign ships. For short hauls such as in the Black Sea Greek freighters and in the longer hauls Italians dominated. It was estimated that only 5 % of the total export was shared by Turkish shipping companies.

Foreign capital was also considered in the Law for the Encouragement of Industry. In the ninth chapter I indicated that foreign capital benefitted from all the concessions and tax exemptions granted by this Law.

The positive attitude of the young Republic towards foreign capital could be due to the practical necessities such as scarcity of capital and technology. Nonetheless, this attitude seemed to be contradictory with the passionate nationalistic discourse of the era. However, above all, if the philosophy on which the nationalistic program rested is considered this superficial contradiction disappears. The program of the new Republic was mainly formed during the struggle with the *West* and the aim was to be like the *West*.¹⁶

In the case of the merchants the problem was to dismiss the non-Muslim intermediaries and to replace them with Turks. Trying to stand on their feet, their primary aim was to be recognized as the new intermediaries by the foreign companies.

¹⁶.The slogan of the nationalistic discourse which is still on the agenda has been "to reach the level of contemporary civilization" which was the *West*. Modernization simply meant Westernization in the Turkish tradition.

One of the major changes in the transition to Republican Turkey was the decline of population¹⁷ and the widespread population movements. The decline of the labor force was relatively more than that of the overall population. Although the population exchanges were officially recognized by the Lausanne Treaty the exodus started long before the Treaty. During World War I, the Armenian population, was forced to choose between the options of emigration or extermination. By the autumn of 1922, especially the Greeks fled from Anatolia. The main exchange movements were carried out until 1926. By 1926 more than 1,260,000 Greek refugees, 80 % of them originally from Anatolia, left and in turn about 400,000 immigrants of Turkish origin from Greece came to Turkey.¹⁸ The transfers had two direct effects on the economy. First of all, the population decline became a problem. When the effect of the wars on the population is considered the extent of this problem can be easily understood. In addition to the problems caused by the lack of the available manpower, the fact that most of the refugees were to a large extent tradesmen and artisans created a tremendous disadvantage for

¹⁷.Excluding Thrace, Istanbul and Kars-Ardahan, the population of Anatolia, between 1912 and 1922 was as follows: Muslims 13.7 million in 1912 and 11.2 million in 1922 and non-Muslims 2.8 million in 1912 and 0.3 million in 1922. See J. McCARTHY 'Foundation of The Turkish Republic: Social and Economic Change', *Middle Eastern Studies*, 1983, V19, p. 140.

¹⁸.Z.Y. HERSCHLAG, *Turkey, the Challenge of Growth*, Netherlands, 1968, p. 24.

the Turkish economy. Instead, most of the immigrants were farmers. The number of ownership of selected manufacturing industries in 1913 exemplifies the situation:¹⁹

	Muslim	Non-Muslim	Government	Unknown	Total
Flour Milling	7	16	1	7	31
Macaroni Production	1	7		1	9
Carpentry and Cabinet Making	1	9		2	13
Metal Working	1	20		3	24
Oil		4			42
Printing	11	26	3	11	42
Total	21	82	4	24	161

The number of ownership of selected manufacturing industries in 1913.

The emigration of non-Muslims had adverse effects on the economy. In the early days of the Republic 75 % of the manufacturing industry apart from foreign capital was controlled by non-Muslims.²⁰ In many of the productive sectors sharp decreases were observed. Most of the grape and fig producers, for example, were Greeks and Armenians and

¹⁹J. McCARTHY 'Foundation of The Turkish Republic: Social and Economic Change', *Middle Eastern Studies*, 1983, V19, p. 148.

²⁰W. HALE, *The Political and Economic Development Of Modern Turkey*, New York, 1981, p. 36.

after they left, the export of these products had entered a crisis period.²¹

Non-Muslims, having arranged their relations in the foreign markets, had the information and experience of foreign trade. With this advantage it was extremely difficult for the Muslims to compete with them.

A direct consequence of the emigration of population from Anatolia was the opportunity to concentrate land ownership in the hands of the Turks. In the Encyclopedia Britannica of 1922 the following view was asserted:

"Armenian land-owners, already in possession of the richest areas of the Cilician plain were rapidly increasing their holdings; and the Armenian population prospered and multiplied while the Moslem population declined."²²

²¹.A.H. BAŞAR, "1924 Hadisatı İktisadiyesine Bir Nazar", *Istanbul Ticaret ve Sanayi Odası Mecmuası*, February, 1341(1925), p. 698; Mardin also emphasized that the most important economic outcome of the period at issue was the emigration of non-Muslims: "Ancak, kısa dönemde, Kurtuluş Savaşı'nı izleyen bir kaç yıl içinde, yeni Cumhuriyet yönetiminin, yerel bir burjuvaziyle ortaklık kurmak ve ekonomi için esaslı bir altyapı kurmak gibi ekonomik politikalarını belirleyen değişkenler arasında hiçbiri, şu ana dek belirtilmemiş olan biri, yani Anadolu'daki azınlıkların ülkeyi terketmeleri kadar hayati olmamıştı.", S.MARDİN, *Türk Modernleşmesi*, Toplu Eserler-Makaleler 4, İletişim, 1991, p. 225.

²².C. KEYDER,(1981) p. 21. The article should have been written probably before 1915.

On the other hand, according to the 1927 census only 120 Armenians remained in Adana, the principal city of the region.²³

While the emigration out of Turkey adversely affected the Turkish economy, it also provided the economic basis for the national economy. By the replacement of the emigrant population by the Turks the nationalization of the economic actors was given an impetus.

The outflow of the non-Muslim capital was also manipulated by foreign capital. This plan was, to some extent, realized until the end of the 1920s.

Although the general economic atmosphere was in favor of commerce rather than industry Turkey witnessed in the 1920s respectable attempts of industrialization.

The formation of capital accumulation sharply accelerated during World War I. It was due to the breakdown of the normal political and economical relations in the world that the Union and Progress Party (UPP) could implement the "Milli iktisat" (Nationalist Economy) or national economic policies. On the one hand, the Capitulations were abolished and non-Muslims were forced to be excluded by every measure. On the other hand, the UPP encouraged the Muslims to participate in economic activities. An artificial class emerged rapidly. In many

²³.Ibid p. 21.

places the interests of the local bureaucracy and this new class coincided.

The nationalist movement, the Kemalists, was aware of the importance of economic independence, and industrialization in particular. As early as 1923, during the Izmir Economic Congress, the following statement was read: "The new Turkish State will base its foundations not on the spear, but on the economy, which is itself the foundations of the spear. The new Turkish State will not be a state of conquerors, but an economic state."

A similar trend was also observable in some other developing countries. As Issawi emphasized:

"The First World war, by cutting off supplies, made people realize their complete dependence on the outside world for manufactured goods. The achievement of political independence after the war, the heightening of nationalism, and the dawning awareness of the importance of economic matters led to systematic private and public efforts to promote industry through such agencies as Bank Misr in Egypt and Is Bank in Turkey, as well as through direct government encouragement in those countries and Iran. But it was only in the 1930s that industrialization really began."²⁴

It was in the 1930s that serious attempts of industrialization were made. The Minister of Economy, Celal Bayar, declared at the Fourth Congress of the Chamber of Commerce and Industry the necessity and significance of a rational industrial policy:

²⁴C. ISSAWI, 'De-industrialization and re-industrialization in the Middle East Since 1800', *International Journal Of Middle Eastern Studies*, 1980 V12. p. 474.

"In the coming years, rationalization will absorb our minds before all other problems. By rationalization we comprehend organization suited to the requirements of reality, a pattern of technical and economic activity which aims at the destruction of all factors causing waste of time, money, labor and material. In particular, we wish to organize the taylorization and standardization of products and their marketing."²⁵

This process, to some extent, laid the ground for industrial entrepreneurs. As Hershlag pointed out:

"Certain basic conditions of industrialization did exist, even if limited, at the beginnings of the Republic; among them, political independence and growing stability, and some other important economic resources. But at the same time the country was lacking in other equally important conditions, such as initial capital, techniques, skilled labor and management."²⁶

Among the others, scarcity of capital and entrepreneurship was the most important obstacles to industrialization. Moreover, the rate of profits in commerce was much higher and easier to realize so that this situation motivated internal and external trade rather than industry. As we refer to Hershlag :

"Scarcity of capital and entrepreneurship prevented any serious efforts towards industrialization and modernization of agriculture. Capital did not come to Turkey for developmental purposes. Investment in agriculture did not promise immediate high returns; investment in industry, in conditions of low effective

²⁵.O. SAHINGIRAY, *Celal Bayar'in Söylev Ve Demeçleri 1921-1938*, Ankara, 1955, published by the İş Bank, p. 88.

²⁶.Z.Y. HERSCHLAG, *Turkey, the Challenge of Growth*, Netherlands, 1968, p. 34.

demands and poor infrastructure, was very risky. In addition, foreign investors abstained from creating local industries which might compete with finished goods produced in their own countries. Capital flowing to backward and dependent areas was therefore invested in those economic resources which gave quick and high, or at least secure, returns, without endangering other interests of the foreign investors. Thus railways, services, finance and mines became the chief targets of this kind of investment."²⁷

Artisanal production dominated in the smaller towns and in the countryside. The "modern" industry was concentrated in the two major cities, in Istanbul and in Izmir. According to the 1927 census 816 of the total 2052 manufactures employing more than ten workers were in these cities. This was approximately 40 % of the total number of the manufactures.

The liberal economy of the 1920s and the foreign competition, it is claimed, undermined the viability of the industry. It was in the more autarkic economic conditions of the 1930s that these artisanal productions gathered strength again.²⁸

The most important development in the 1920s for the industry was the famous Law of the Encouragement of the Industry. This law, having provided several concessions and tax exemptions, aimed to create the conditions for the establishment of large scale industry. The extent to which

²⁷.Ibid p. 33.

²⁸.C. KEYDER, (1981), p. 52.

the industry benefitted from the Law will be discussed in detail in the ninth chapter.

It was mainly due to the Great Depression of 1929 that a very different economic and political atmosphere were created in Turkey. Besides, the positive expectations from the private entrepreneurs also ceased in the eyes of the bureaucracy and the people. The heyday⁶ of the etatist policies dominated in every aspect of the life in the 1930s.



CHAPTER 3

THE HISTORY OF ISTANBUL CHAMBERS OF COMMERCE
BEFORE THE REPUBLICAN ERA

Trade had a very special function with respect to the other economic activities in the Ottoman Empire. To the Ottoman view, international exchange of money and goods which was believed to be the source of wealth necessary to recover the Empire's power was of great significance. The customs duties had been a major way of collecting state revenue. The state was the most formidable social actor not only in the political but in the economic life as well. The subsistence of the large cities, especially that of Istanbul, depended heavily on external trade.

With the process of industrialization led by England the Ottoman trade with Europe expanded tremendously because of the existing division of labor. The role of the peripheral countries deeply changed since these countries were seen to be a source of raw materials for the provision of the demand created by the Industrial Revolution.¹ The real value of Ottoman export during 1885-1909, for example, had expanded by 70 % percent.²

¹.Y.S. TEZEL, *Cumhuriyet Döneminin İktisadi Tarihi*, Ankara, 1986.p. 62.

².Ibid p. 67.

The Istanbul Chamber of Commerce, representing the mercantile interests in the region, played a crucial role in the development of Ottoman trade. Before the foundation of the Istanbul Chamber of Commerce there were several foreign chambers of commerce functioning in Istanbul. Austro-Hungarian Chambers opened a branch in 1870. The French Chamber of Commerce, founded in 1884, had at least 1000 members in 1906. The British Chamber of Commerce founded in 1887 had 125 members, 50 of them resided in Istanbul. The Hellenic Chamber of Commerce of 1891, receiving a subsidy of 1500 francs from the Greek government, played an important role in this field.³ And finally the American Chamber of Commerce at Constantinople was established in 1911 and set up branches in Izmir, Beirut, Cairo and Salonika. It had approximately 500 members in 1912. The Chamber, taking care of American trade interests, sponsored the quarterly *Levant Trade Review*, published in Constantinople beginning on August 1, 1911."⁴

The "national" chamber, the Istanbul Chamber of Commerce was founded on January 14, 1882, in an era of financial collapse of the Ottoman state especially characterized by the foreign debt crisis and by the total

³M.S. HOELL, *The Ticaret Odası: Origins, Functions and Activities of Chamber of Commerce of Istanbul, 1885-1889*, Ohio State University, 1973 (unpublished Ph.d thesis), pp. 2-5; NEZİHI HAKKI, *Elli Yıllık Oda Hayatı*, Istanbul, 1932., p. 26.

⁴J.A. DENOVO, *American Interests And Policies in the Middle East 1900-1930*, Minneapolis. 1963, p. 41.

economic dependency to the West. It was also the year in which the *Public Debt Administration (Düyunu Umumiye)* was founded aiming to control a large quantity of the Ottoman "national" income.

Although the year 1882 is commonly accepted as the year of foundation⁵, the preparatory attempts go much before 1882. In 1879 the organic law for the formation of a Chamber of Commerce which was sent to the Imperial Government included eleven articles and was later accepted by the Sultan.⁶ Of the eleven articles eight were about the organization and the others were about the duties of the Chamber of Commerce. The most important ones were as follows:⁷

" 2.The members of the Chamber of Commerce are elected from among the merchants possessing a good reputation, honesty and solvency, at least thirty years of age, having engaged in commerce for five consecutive years.
3.The election of members of the Chamber is made by twenty electors of which half will be named by the Ministry of Commerce and Agriculture and the other half by the merchants.

4.The electoral assembly will meet under the presidency of the Minister of Commerce.

9.The Chamber of Commerce, whether of its own initiative or according to the demand made of it, will propose in writing to the Ministry of Commerce and Agriculture appropriate measures to lead to the progress and development of skills and industry, modifications and reforms to be introduced into commercial laws and customs duties, projects concerning

⁵.E. ZEYTINGLU & N. PUR, *Istanbul Ticaret Odasının 100 Yılı (1882-1982)*, Istanbul, 1982, p. 10; NEZİHİ H.(1932), p. 14.

⁶.E. ZEYTINGLU & N. PUR, (1982), p. 7.

⁷.Ibid p. 8, M.S.HOELL, (1973) p. 210.

the execution of public works such as the construction of ports, river navigation, the extension of postal, telegraphic and railway lines, the opening and repair of bridges and highways, the establishment of exchanges, the publication of commercial journals, in short, all that can contribute to the progress of commerce.

11. The Chamber of Commerce will keep an exact record of merchandise, currency, and public titles of all kinds as well as any other types of commercial transactions, and upon demand by the Ministry of Commerce, will send to it an extract of this record invested with its special seal."

Although the dictionary definition of chamber of commerce is a *voluntary board or council for some commercial purpose*, it is possible to say by analyzing the abovementioned articles that starting from its establishment, even after the Republican era, The Chamber of Commerce (and Industry) couldn't manage to avoid the state authority.⁸

In a study concentrated on the Istanbul Chamber of Commerce, Agaoglu and Yerman imply that the Chamber was an organ of the state and must be elaborated within the

⁸. For an official history writer of the Chamber, there were two kinds of chambers. The first one is the so called *French* style in which chambers are only organs of state and the other was the liberal *American* style in which chambers are absolutely autonomous organizations. For Avni the Istanbul Chamber of Commerce and Industry before 1925 was in French style. H.A. SANDA(1926), Op.6.

It is also possible to see a similar opinion about the definition of a chamber of commerce at that time in the related Bulgarian law: "Chamber of Commerce and Industry is an organization representing the interests of merchants and artisans and although it is an organ of the state it has the responsibility to support the interests of the classes which it represents.", H. NEZİHI, (1932) p. 8.

context of the everlasting dominant corporatist ideology of Turkish/Ottoman politics.⁹

In 1881, the interior regulation of the Chamber of Commerce was accepted. It included 44 articles on the purpose of the Chamber of Commerce, the duties of the president, the functions of the chamber, the duties of merchants and people engaged in commerce, the duties of the paid officials and the receipts of the Chamber of Commerce. This interior regulation was translated into French, Russian, Hebrew and Armenian.¹⁰

In article three of the interior regulation ¹¹ together with the ninth article of the organic law of the Chamber of Commerce it is possible to see an attempt to promote the Empire's trade which was in line with the targets of the Government.

From its commencement in 1882 until 1925, the Istanbul Chamber of Commerce was dominated by non-Muslim communities. When the number of non-Muslim members is

⁹.AĞAOĞLU S.& YERMAN C.,*Ticaret ve Sanayi Odaları, Esnaf Odaları ve Ticaret Borsaları*, Ankara, 1943.p. 36.

¹⁰.E. ZEYTiNOGLU & N. PUR, (1982),p. 22, H. NEZiHi, (1932),p. 59.

¹¹."Article 3.The fundamental duties of the Chamber of Commerce consist of gradually investigating the means and taking all necessary measures for the development of commercial and industrial interests; to communicate, after previous examination, to the Imperial Government the information assembled to that effect, and to indicate to it the causes which arrest the progress of commerce and the appropriate means to increase development and prosperity." E. ZEYTiNOGLU & N. PUR, (1982),p. 14, M.S. HOELL, (1973), p. 212.

compared with that of Muslims in the administrative body of the Chamber of Commerce, there was an apparent majority of the non-Muslim communities.¹² In the Ottoman Empire traditionally Muslims were concentrated in administrative bodies whereas, and may be as a consequence of this, the non-Muslim communities were usually engaged in commerce and banking.¹³

Of the other communities Armenians had the majority in the Chamber of Commerce: "regarded among the most faithful were the Catholic Armenians, who had" almost invariably been the richest portion of the community "in banking and other financial affairs. They "understood and sympathized with Turkish methods of transacting business", as they were more in touch with Turkish ideas and habits than Greek subjects. Accordingly, the president of the chamber upon its inception and for 15 years thereafter was Aristakes Azarian, a banker whose firm, Azarian Pere at Fils, had connections with the

¹².The Administrative Committee of the Chamber of Commerce in 1885 may be an example of this: "The complete Subaizade; Councillors, Georges Casanova and Sinekerim Manokyan; Apik Uncuyan, Abraham Benzonono, Mehmet Ağazade, Athanase Telloglou, Manuk Aslanian, Ferid Basmacizade, The Imperial Ottoman Bank, Cherubin Cherbtjian, Constantin Fetridi, Serif Ali, Dimitraki Yenidunia, Dimitraki Paspalli, Dikran Karagozyan, Corcaki Sivastopulo, Jean Anastassiade, John Thomson, Migirdic Vasayan, Mustafa Hakkı, Hacı Srope Gulbenkyan and Zaharya Hacopulo. "M.S. HOELL, (1973), p. 51.

¹³.Most of the companies were owned by non-Muslims. H. NEZİHI, (1932) gives the newspaper publication as an example of this situation. "All foreign newspapers in the 1880s in the Ottoman Empire were economically and financially oriented in other words their most important aim was profit-making whereas the Turkish ones were not." H. NEZİHI, (1932), p. 34.

London House of Rothschild and who was also the brother of the current Patriarch of Catholic Armenians, Etienne Azarian Pierre."¹⁴

For many years the same group or their relatives became effective in the administration of the Chamber of Commerce. "Fourteen families on the 1885 list were included in the membership of twenty-four ten years later."¹⁵

It was also possible for non-Ottoman subjects to be a member of the Istanbul Chamber of Commerce. The Izmir Chamber of Commerce in 1885 asked to the Istanbul Chamber of Commerce if foreign merchants could be a member of the Chamber and a positive answer was given to them. An Italian, a French and a Greek member were present at the administrative committee of the Chamber at that time.¹⁶

The Administrative Committee of the Chamber of Commerce in 1913 may give us an idea about the ethnic composition and nationality of the Chamber of Commerce. Of the 24 members of the Administrative Committee 18 were non-Muslims and only 6 of them were Muslims. 21 of them were Ottoman, 1 French, 1 Italian and 1 Russian.¹⁷

In its first year, the Chamber of Commerce investigated the promotion of the *national* industry and trade.

¹⁴.M.S. HOELL, (1973),p. 50, H. NEZİHİ, (1932),p. 131.

¹⁵.M.S. HOELL, (1973),p. 54.

¹⁶.E. ZEYTİNOĞLU & N. PUR, (1982),p. 37.

¹⁷.Ibid p. 60.

"Construction of railways", "implementation of heavy customs duties for European goods which were also domestically produced in the Empire", "Opening trade schools and chambers of commerce", "fostering credit facilities", ¹⁸ etc. were the basic concerns of the Chamber. The term national at that time meant local rather than carrying any ethnic significance. Therefore the promotion of national industry and trade had a different connotation from the one used after the emergence of Turkish nationalism.¹⁹

In 1884 the Chamber of Commerce indicated great sensitivity to two articles in the organic law of the newly founded French Chamber of Commerce about the promotion of French commodities in the Ottoman Empire. They argued that these articles would jeopardize the "national" interests and products of the Ottoman territory. The Chamber lobbied the Ministry in order to cancel the articles. It is noteworthy to remember that at the time of this issue there were also French members in the Istanbul Chamber of Commerce.²⁰

In the Journal of the Chamber of Commerce, the failure in industrial development was attributed first of all to political difficulties and conditions engendered the

¹⁸.Ibid p. 30.

¹⁹.This distinction is important since E.ZEYTiNOGLU & N. PUR (1982), for example, regards The Chamber of Commerce as a stimulus for *Turkish* merchants against Western industrialists and merchants.

²⁰.E. ZEYTiNOGLU & N. PUR, (1982),p. 36, H. NEZiHi. (1932),p. 115.

government and secondly to a complete lack of initiative on the part of the Empire's capitalists.²¹

"Profits had been easier and more lucrative in the import trade and public office. Industrialists had retained their antique systems without equipment or, overwhelmed by European industrial progress, had closed up shop and left the field. Certain economists believe that to have raw materials was not enough," continued the *Journal*, "the population must have special aptitudes; that industry belong to a distinct class of humanity and could not be acclimatized to Turkey.

With characteristics ambivalence, the *Journal* was certain that "the Imperial Government is ready to impose upon itself sacrifices in inaugurating a system of protection for the profit of native industry". Among the measures which could afford this protection were: the modification of laws regulating commercial societies; the suppression of formalities to which industrial enterprise was submitted; modification of the difficult conditions exacted by the High Commission of Public Works for request to establish machine and textile factories; reduction of imports and taxes which hobbled the industrial development of raw materials; freedom of circulation of merchandise from one end of the Empire to the other by suppression of the eight percent interior duties; exemption from import duty for all machines and tools as well as coal for industry; reduction of import taxes on gold and silver wire and on all materials raw or finished needed by industry; conclusion within short of the treaties of commerce, taking the needs of native industry as a basic principle; opening of practical schools of industry and establishment of modern farms and distilleries in production centers; and finally, the construction of railways.

"Industry is capricious," concluded the *Journal*: "it prefers the arid rocks where it is free to the rich and fertile plains where it is hindered. "Why do we not profit by this example?" asked the merchant importers."²²

Despite the "national" concerns, the Chamber of Commerce was not against foreign capital. In some cases it

²¹. Quoted from the *Journal of the Chamber* by M.S. HOELL, (1973), p. 123.

²². *Ibid* pp. 123-124.

was critical, such as in the case of foreign insurance companies, but, in general, it welcomed foreign investment. Foreign capital in developmental purposes had to be encouraged. "...We believe that the means which the country has are not sufficient to construct our great public works. It is thus necessary to have help from others on condition that in all our conventions we keep in mind only the interest and respect for the law of the Empire. We have, moreover, in Zihni Paşa, Minister of Commerce and Public Works, a minister for whom the safeguarding of these interests constitutes the sole care."²³

One of the aims of the Chamber of Commerce was to unfold itself throughout the Empire. By 1885, 78 chambers of commerce were established ²⁴ and this number was increased to 160 by 1908 ²⁵ and was about 233 by October 1924.²⁶

On December 24, 1884 the Journal of the Chamber of Commerce, *Dersaadet Ticaret Odası Gazetesi* was published

²³.Ibid p. 128.

²⁴.Ibid p. 57.

²⁵.Quoted from MEHMED CAVID, *Ticaret Odaları, Ulum-u İktisadiyye ve İctimaiyye* cilt 1, no 2, 1324, by Z. TOPRAK, *Türkiye'de Milli İktisat 1908-1918*, p. 368. Also H.A. SANDA, *Istanbul Ticaret ve Sanayi Odası Eylül 1923-Mayıs 1926 Faaliyet ve Muamelatına Dair Umumi Rapor*, (In Ottoman Script) Istanbul, 1926, gives the same number, p. 7.

²⁶.*Istanbul Ticaret ve Sanayi Odası Mecmuası*, October 1340, p. 542. In H.A. SANDA(1926), the number of the chambers of commerce is 221 in 1925(1341) which may seem to contradict with that given by the Journal of Commerce and Industry.

biweekly (weekly after 1885 and monthly after 1912) both in French and Turkish. It was the second professional periodical, the first of which was the *Ziraat Gazetesi* (*Journal of Agriculture*) throughout the Empire.²⁷ The Journal of the Chamber of Commerce was, along with other publications, probably subsidized by Abdülhamid.²⁸

Through the pages of the Journal, the Chamber of Commerce was able to conduct a series of discussions and recommendations both to the Imperial Government and to its own members.

Nevertheless, the ambivalent philosophical views of the merchant class emerged through the journal's stand on the numerous issues which confronted the Chamber. Articles on monopolies, the preservation of free trade, and inveighments against protectionism were directed not only against nations abroad but also toward elements within the Empire. Monopolies were an abomination. The Sultan was reported to believe that any monopoly not justified for reasons of public order was an evil thing. All monopolies, in fact, were barriers to the exercise of trade. The agriculturalist should have the right to sell the product of his labor at a price resulting from his free consent. The Ottoman capitalists who had arisen from their usual torpor and sought monopolies on agricultural products contributed nothing to the development of Turkey. Industry in Turkey should be encouraged "but not by monopoly, which is fruitful for producers but prejudicial to the majority of consumers and cannot exercise a healthy influence upon the economic destinies of nations."²⁹ Therefore, the low tariffs were the motto throughout the history of the Chamber of Commerce: "Ottomans would remain faithful to their good economic traditions of

²⁷.E. ZEYTINOĞLU & N. PUR, (1982),p. 34.

²⁸.M.S. HOELL, (1973),p. 73.

²⁹.Ibid p. 71.

low tariffs and an avoidance of "artificial protection".³⁰

Until 1908 the Chamber of Commerce was strongly against *monopolies*. But in the Young Turk era it is possible to see some positive reports submitted to the Ministry in favor of monopolies. The necessity of domestic production especially in commodities such as glass and paper made the Chamber of Commerce accept the principle monopoly to some extent.³¹

In addition to devoting itself to the articles supporting the ideology of the strata it represents, the Journal of the Chamber, *Dersaadet Ticaret Odası Gazetesi*, also investigated the comparative advantages/disadvantages of domestic products. Merchants and industrialists were informed about the foreign market opportunities, about relative prices of commodities and so on.

In 1888, six years after it was founded, the name of the Chamber of Commerce was changed to Istanbul Chamber of Commerce, Agriculture and Industry. However, the name of the Journal was retained. As its coverage expanded, the range which the Chamber was engaged in widened too.³²

In 1897, the President of the Chamber of Commerce, Aristakes Azarian, died and Basmacızade Ferid was elected in 1898 as the new President and presided the Chamber until his

³⁰.Ibid p. 72.

³¹.H. NEZİHİ, (1932),p. 193.

³².ZEYTİNOĞLU E.&PUR.N(1982),p. 40, M.S. HOELL, (1973), p. 108.

resignation in 1900. After Basmacızade, again an Armenian, Bedros Azarian, became the President of the Chamber of Commerce.³³

In 1901 the Chamber of Commerce conducted a boycott against merchants engaged in meat trade. The Chamber founded "consumer cooperatives" to respond to the speculative price increases. Committees were organized to prepare reports on this issue.³⁴

In 1902 a new campaign was initiated in the Journal on the opening of a commercial exchange in Istanbul. Although the Chamber of Commerce and the Ministry were in favor of the stock market, they had failed to support the idea on a more concrete basis. Anything about the economic advantages of a stock market was investigated in the Journal to provide intellectual basis for it among people. Many reports were published in the Journal about the significance of the stock market and its usefulness for businessmen and so on. The dominant opinion around the Chamber of Commerce was that a stock market is useful since it provides a close relation between consumer and producer so that the demand and supply would be in equilibrium resulting in objective prices on the market.³⁵

³³.Ibid p. 44.

³⁴.Ibid p. 44.

³⁵.E. ZEYTIÑOGLU & N. PUR, (1982),p. 45. H. NEZİHI, (1932),p. 154.

The Istanbul Chamber of Commerce welcomed the Constitution of 1908 and arranged an extraordinary meeting in which they decided to send a telegram to the Sultan announcing their pleasure upon the declaration of the Constitutional Government.³⁶ The chaotic situation and the perpetual wars between 1908 and 1918 in the Ottoman Empire somehow affected the internal organization and the internal affairs of the Chamber of Commerce. During this period the Chamber of Commerce was only interested in the affairs such as "how can the income of the Chamber of Commerce increase, how can the Chamber of Commerce be appealing for the merchants" etc. On the other hand, the regular meetings of the Administrative Committee were also rarely assembled and only with extraordinary meetings it was usually possible to approve decrees on so many important subjects. For example in 1909 nine meetings, in 1913 seven meetings five of which were extraordinary, in 1916 four meetings one of which was extraordinary and only two meetings in 1918 were held.³⁷

Two years after the foundation of the Constitutional Government of 1908, the interior regulation of the Chamber of Commerce changed. Its name became the Chamber of Commerce and Industry.³⁸

³⁶.E. ZEYTiNOGLU & N. PUR, (1982),p. 51, H. NEZiHi, (1932),p. 144.

³⁷.H.A. SANDA(1923),p. 11.

³⁸.S. AGAOGLU & C. YERMAN(1943),p. 34.

In 1912 the Governor of Istanbul applied to the Ministry of Commerce and Agriculture to have official control over the Chamber of Commerce and furthermore to take over all functions and the income the Chamber of Commerce and Industry. The Ministry of Commerce and Agriculture for this reason requested the opinion of the Chamber of Commerce and the idea was strongly rejected by the Chamber of Commerce.³⁹

From 1908 onwards the activities of the Chamber of Commerce and Industry persistently weakened. This may be understood by the decrease in the number of documents submitted by the Chamber of Commerce and Industry to the concerned parties.⁴⁰

With the help of the history of the Chamber of Commerce and Industry one can observe the reflections of technological development in the Ottoman Empire. Telephone, for instance, was introduced to the Chamber of Commerce and Industry in 1914. Also in 1321 (1905) the Ministry of

³⁹.E. ZEYTiNOGLU & N. PUR, (1982),p. 60.

⁴⁰.Ibid p. 62.

Year	Number of documents
1910	1718
1911	1678
1914	1435
1916	1346
1917	658

Commerce and Agriculture asked about the meaning of *petroleum*.⁴¹

The second half of 1920 was characterized by a general economic crisis resulting from the recession in the commodity markets and from the foreign exchange crisis which in turn caused the breakdown of banking credits. On December 1920 an extraordinary meeting was assembled by the Chamber of Commerce and Industry on the foreign exchange crisis. The Chamber of Commerce and Industry urged the merchants to diminish their foreign currency demand for their import needs as much as they could and suggested immediate conversion of their commodities into cash money. While the crisis persisted still throughout 1921 and 1922 the Chamber of Commerce and Industry continued to carry on extraordinary meetings about the situation with the participation of the foreign chambers of commerce such as the British, Italian and the American.⁴² In an extraordinary meeting held in November 1922 the Chamber of Commerce and Industry found out the causes of the foreign exchange crisis as follows:

- 1)The effects created by the Greek and the Armenian merchants who converted all their paper money into foreign currency which were drawn out of Turkey.
- 2)The expectation that the Government is due to rise the emission rate.

⁴¹.H. NEZİHİ. (1932),p. 171 and E. ZEYTİNOĞLU & N. PUR, (1982),p. 61.

⁴².H. NEZİHİ, (1932),p. 255.

- 3)The speculative economic activities of the Greek Government via the Greek migrants.
- 4)The increase in the demand for gold.
- 5)The gradually accelerating effect of the black market.
- 6)The rumor about the sale of foreign exchange by the Public Debt Organization to the Government in return for paper money so as to pay the foreign debt.

For the Chamber of Commerce and Industry three measures had to be taken to control the crisis. First of all, foreign currency was to be controlled centrally, secondly limited quantities of foreign currency should be provided for touristic purposes and finally speculative economic activities should be suppressed.⁴³

With the rise of the nationalist movement in Anatolia some merchants in Istanbul organized a nationalist trade organization. Challenging the Chamber dominated by non-Muslim and foreign members, the Turkish merchants founded in 1921 the *Association for the Encouragement and Protection of National Trade (Milli Ticareti Tesvik ve Himaye Cemiyeti)*.⁴⁴

⁴³.Ibid p. 258.

⁴⁴.Chapter 1 of the Interior regulation of the Association is as follows:"Article 1)The Association for the Encouragement and Protection of the National Trade is founded in July 1, 1921. Article 2)The center of the Association is in Istanbul it may have local representatives. Article 3)The purpose of the Association is the encouragement and protection of the national trade. For this reason A)The Association is going to arrange economic and social organizations. B)It will support all means to show the true path for this reason. " For the complete interior regulation of the Association see H. NEZİHİ, (1932),p. 234.

After the Sevres Treaty and throughout the War of Independence, the functions of the Chamber of Commerce and Industry nearly came to a cessation. In fact, historians and writers engaged in the history of the Chamber argued that the Chamber of Commerce and Industry in the era of the War of Independence was considered to be "anti-national".⁴⁵

⁴⁵.H.A. SANDA, *Istanbul Ticaret ve Sanayi Odası Eylül 1923-Mayıs 1926 Faaliyet ve Muamelatına Dair Umumi Rapor*, (In Ottoman Script), Istanbul, 1926, p. 12. The first chapter of this book was a short history of the Chamber of Commerce and Industry and was written by Mehmed Vehbi (Sarıdal). Also see H. NEZİHİ, (1932), p. 232.

CHAPTER 4
THE "REBIRTH" OF THE ISTANBUL CHAMBER OF
COMMERCE AND INDUSTRY

The "rebirth" of the Chamber, namely its nationalization, was in general accelerated by the Nationalist Movement. However, in particular we have to take into account the impetus given by the *Turkish National Trade Association (Milli Türk Ticaret Birliği)* and the transformation of the official laws concerning the chambers in favor of merchants in 1925.

The year 1925 was very important for chambers of commerce and industry since the legislative regulations were prepared in this year in favor of Turkish merchants. The Law of Chambers of Commerce and Industry which passed on May 14, 1925 contained 12 articles. In the first article, it was stated that chambers were organizations with legal status (*şahsiyeti hükmiye*).¹ With this article in the Law and another in the Interior Regulation, chambers became public organizations. For the ruling elites of the Istanbul Chamber this status was not equal to a state office.² According to them, the controversial status in the definition of chambers, namely that they were neither civil nor official

¹.For a complete text see "*Ticaret ve Sanayi Odaları Kanunu*", T.C.Sicilli Kavanin, V.1, 1926, No 655, p. 879.

².H.A. SANDA, *Istanbul Ticaret ve Sanayi Odası Eylül 1923-Mayıs 1926 Faaliyet ve Muamelatına Dair Umumi Rapor*, (In Ottoman Script) Istanbul, 1926, p. 4.

organizations, in fact reflected an important characteristic of the young Republic. This was the dominant economic policy of the bureaucracy, called the *mixed* economy. The second one covers the determination of the interior law of chambers by the Ministry of Commerce in collaboration with the chambers. This one with the ninth were the critical articles since they revealed the fact that the state was controlling and determining the extent and content of the performance of the chambers.³ This control was also confirmed by the Interior Regulation of Chambers according to which the Ministry of Commerce was able to abolish any chamber if required.⁴

The state predominance on the chambers had hitherto been a major issue for the merchants. In early 1924 an article concerning the issue was published by the Journal of the Istanbul Chamber of Commerce and Industry. The Journal was in general opposing to the attempts of state dominance on the chambers. Their argument was based on the assumption that the chambers could only be successful institutions if

³.Ibid, p. 880.

⁴.*Ticaret Ve Sanayi Odalari Nizamnamesi*. (In Ottoman Script), T.C.Sicilli Kavanin V.1. 1926. p. 228.

they had enough autonomy.⁵ The argument follows that if the autonomy was not given to them then the state would be responsible from any unsuccessful activities of the chambers. In other words, in case of any failure of the chambers the state would be affected.

One of the major concerns of the article was that the chambers should express their opinions freely even if they were against official views. Their critical demand was that the chambers should freely determine their ruling bodies.⁶

The article finally argued that even the chambers should be independent it did not mean that there could be no influence of the state over them. This argument which seems to be a consensus might be related to the semi-official status of chambers.

The third article in the Interior Regulation was of significance since the chambers hitherto requested the obligation of merchants' registration to the chambers. With this article, it was possible to close companies who were not members of chambers. This not only provides a regular source of income for chambers but also strengthens the force

⁵."Nihayet halkına aid müessesatı, halkın doğrudan doğruya alakadar olan sınıflarına terk etmek de yeni inkilab hükümetimizin şiarı olmak lazım gelir.Şehr belediyelerinin idaresi için şehr belediyelerine verilen hukukun ticaret mesailini idare ile meşgul olmak üzere tüccara verilmemesi acaba ne dereceye kadar doğrudur?", "Ticaret Odaları ve Hükümet Nüfusu", *Istanbul Ticaret ve Sanayi Odası Mecmuası*, March, 1924, p. 196.

⁶.Ibid 195.

of chambers as a social pressure group.⁷ As before, chambers were perceived as means of getting economic information. According to the fourth related article, chambers should register local judicial records not only of their members but also of local small artisans.⁸ The Ottoman Bank became the member of the Chamber with the record number "1".⁹

On September 27, 1925 the Government accepted the "Interior Regulation of Chambers of Commerce and Industry".¹⁰ As for the interior regulation, the Chambers were not *local* but *regional* associations. This article was welcomed by the merchants since the range controlled by Chambers were expanded.¹¹ With the Regulation, the Chambers were to gather economic information especially on export commodities, organize commercial exhibitions in and outside the country and open representative branches in foreign countries.¹² According to the Regulation, the primary condition to be elected was to be a Turkish citizen which

⁷. *Ticaret ve Sanayi Odalari Kanunu*, p. 880.

⁸. *Ibid* p. 881.

⁹. E. ZEYTİNOĞLU & N. PUR, (1982), p. 90.

¹⁰. For the complete text see *Ticaret Ve Sanayi Odalari Nizamnamesi*, T.C. Sicilli Kavanin V.1, 1926, p. 228.

¹¹. H.A. SANDA, *Istanbul Ticaret ve Sanayi Odası Eylül 1923-Mayıs 1926 Faaliyet ve Muamelelarına Dair Umumi Rapor*, (In Ottoman Script) Istanbul, 1926, p. 4.

¹². *Ticaret Ve Sanayi Odalari Nizamnamesi*, 1926, p. 230.

reflected the nationalist attitudes of the epoch.¹³

Apart from the *Association for the Encouragement and Protection of National Trade* about which we know only a little, it is unlikely to talk about a "Turkish" trade association from the establishment of the Chamber of Commerce in 1882 until the foundation of the *Turkish National Trade Association* in 1922. The Nationalist Liberation Movement first emerged in the Eastern Anatolia gave the impetus of a nationalist wave to the merchants of Istanbul. In December 1, 1922 *Turkish National Trade Association* was founded with the participation of eminent Turkish merchants.¹⁴ Their primary aim was "to replace the Turkish merchants instead of the non-Turkish ones who were hitherto controlling foreign trade and the stock exchange market and all the resources of the country. "For the Journal of the Chamber the Association was " much of a defense organization against the non-national and monopolistic forces."¹⁵ In the report submitted after the first year of achievement, it is interesting to note the

¹³.Ibid p. 236.

¹⁴.Some of the founders of the Association were:"Kavalalı İbrahim Paşazade Hüseyin Bey, Hacı Hüseyinzade Ali Haydar Bey, Yelkencizade Rifat Bey, Hacızade Mesud Bey, Buldanlı Ahmey Bey, İbrahim Paşa Mahmudu Abbas Hilmi Bey, Hocazade Mehmet Efendi, Kalkavanzade Mehmet Rıza Bey, Sabuncuzade Mehmet Şakir and Mahdumu Bey", A.H. BASAR, 'Meşrutiyet'ten Cumhuriyet'e', *Barış Dünyası*, no 54, November 1966, p. 698.

¹⁵. 'Milli Türk Ticaret Birliği Senelik Kongresi, Meclis İdare Raporu', *İstanbul Ticaret ve Sanayi Odası Mecmuası*, January, 1924, p. 170.

attitude of some of the Istanbul press. The Association at the time of its foundation was confronted with questions from the press like "we appreciate the efforts of the Association for the improvement of economic activities but why *national*?"¹⁶

The organic law of the Association also clearly draws the aims of the Turkish National Trade Association which included the following articles:

- 1) To launch the hegemony of the Turkish merchants in the export and import trade and in the retail and wholesale trade.
- 2) To constitute trade organizations like trusts, consortiums among the merchants with respect to their specializations.
- 3) To try to make these organizations dominant in export and import trade under the assistance of the state protectionism.
- 4) To provide assistance to the government involving the interests of the merchant class and the country by investigating and analyzing the cases and occurrences that may affect the country's trade movements.
- 5) To introduce Turkish companies and the Turkish trade society to the foreign parties and to inform them about the financial, economical and commercial progress of the western organizations immediately.¹⁷

¹⁶. Ibid p. 170.

¹⁷. A.H. BASAR, 'Mesrutiyet'ten Cumhuriyet'e', *Barış Dünyası*, no.54, November 1966. p. 697.

The major activities of the Association apart from distributing handkerchiefs and sweets to the Turkish army when they first marched into Istanbul¹⁸ may be summarized as mentioned by Ahmet Hamdi Başar. In his memoirs he gives the following information about the Turkish National Trade Association:

"The foundation of the Turkish National Trade Association attracted the interests of both the national and the international press. With a bulletin we declared that in addition to 18 members of our assembly several eminent merchants of Istanbul participated in our meetings. We declared that the Turkish merchants would soon replace the functions of the non-Muslim intermediaries and we would communicate with the European and the American businessmen and advise them to work with Turkish businessmen. Everyday we were publishing bulletins in French and in Turkish which were sent to anywhere we could reach. Soon the center of the association turned to be a place of detecting information about trade for the international and national press and for the foreign trading missions. We were organizing at least one assembly per week on various issues with the merchants and by this way we were able to improve our prestige. We had learned the information about all the names and addresses of the firms while we were preparing the *Trade Annual (Ticaret Salnamesi)*. In two months time, many of the members of the Istanbul Chamber of Commerce and Industry became members of our association. In addition to merchants, we accepted young people who graduated from administrative departments of universities of foreign countries as our members. We advised foreign firms working in Turkey to employ these gentlemen. With our activities many young Turkish managers made contracts with foreign firms. Today (1966) many representatives of foreign firms managed to do so either directly with the help of the Union or with the help of the aspirations created by the Union."¹⁹

¹⁸. 'Milli Türk Ticaret Birliği Senelik Kongresi, Meclis Idare Raporu', *Istanbul Ticaret ve Sanayi Odası Mecmuası*, January, 1924, p. 175.

¹⁹. BAŞAR(1966), no 54, p. 699.

The publication of the Trade Annual by the Turkish National Trade Association was of great importance. This was prepared by a special company and some of the revenue gained from this publication was given to the Association. Istanbul was divided into 9 districts and information about 4267 companies were obtained.²⁰ The Turkish National Trade Association also distributed more than 10000 bulletins concentrating on economic informations, advertisements of firms and factories, etc. *Turkish Economic Journal (Türkiye İktisat Mecmuası)* was also introduced by the Association which was distributed around 42 000.²¹

The Istanbul's Muslim/Turkish merchants were realistic enough to demand state assistance and protectionism to manage the replacement of the non-Muslims by the Turkish although they were for liberalism and free competition in theory. According to the initial impetus was to be given by the state. The Turkish National Trade Association was not interested in the national industry at all but in export, import and wholesale trade.²²

In the first days after its foundation, on January 17, 1923, the Turkish National Trade Association sent a critical

²⁰. Milli Türk Ticaret Birliği Senelik Kongresi, Meclis İdare Raporu', *Istanbul Ticaret ve Sanayi Odası Mecmuası*, January, 1924, p. 172.

²¹. Ibid p. 172.

²². D. AVCIOGLU, *Türkiye'nin Düzeni*, Ankara, 1969, p. 165.

report to the Ministry of Economy about the Istanbul Chamber of Commerce and Industry. The report covers the following critics and opinions about the Chamber: The Chamber, perhaps the worst of its kind in the world, achieves absolutely nothing not only in essence but also in form. This creates a great contradiction, since Istanbul is the economic center of the country.

In the opinion of the association the corruptions of the Chamber for years could be summarized in the following points: 1)It is not an active organization engaged in economic life. Seven points may be given to support this observation: a)Even in the worst conditions the Chamber didn't draw its attention to the affairs which was of its interest. b)Although it is nearby the commercial markets, it has not even the least information about them. c)The very necessary publications such as the laws and regulations involving the economy had not been collected in the Chamber. d)It does not have any more information about the commercial activities in Istanbul than an ordinary merchant. e)It could not answer any questions or requests by the foreign chambers and merchants. f)It has no publication apart from the irregularly published periodical which would make the situation better if it did not exist. g)The Chamber which even can not manage to perform the minimum requirements can not deal with the economic affairs such as the foundation of commercial exchange and cereals exchange, international chambers, organization of conferences etc.

2)It has not been national, indeed the other way around. Even a quick sketch of the ethnic origin of the members of the Chamber is enough to understand the situation. The majority of the administrative committee of the Chamber had never become Turkish. All the activities of the Chamber were under the control of the Armenians and the Greeks.

3)It has no respect and trustworthiness in foreign countries, namely among foreign trading parties. Whenever the related parties need any information they apply to the Armenians and Greeks because of the inadequacy of the information supplied by the Chamber. This in turn results the formation of false consciousness about Turkish companies".²³

The Turkish National Trade Association⁶ postulates some formulas about the reform and improvement for the Istanbul Chamber of Commerce and Industry. According to them, the first and the essential thing to do was to abolish the ruling administrative committees of the Chamber who were against the nationalist ideals. Afterwards the organic law of the Chamber which dated back to 1910 had to be renewed but this would be useless if the first condition wasn't realized. Their suggestion was to reorganize an election as soon as possible and proposed several legal ways to do this. One of them could be to force the majority of the members resign while an another one could be an intervention of the

²³ A.G. ÖKÇÜN, *Türkiye İktisat Kongresi 1923-İzmir*, Ankara 1968, pp. 94-104.

governor of Istanbul in this direction.²⁴ None of them happened because the Government decided to do these changes after the sign of the peace treaty. However, the Turkish National Trade Association couldn't wait for so long. Its director, Ahmet Hamdi Başar, went to Ankara and managed to persuade the General Trade Director of the Ministry on making new elections by a 'fait accompli' as he called it. On August 2, 1923, the elections were held and the *nationalization* of the Chamber had begun.²⁵ This became a turning point in the history of the Chamber for the hegemony

²⁴.E. ZEYTINOĞLU & N. PUR, (1982),p. 76.

²⁵.BASAR(1967),no 57, February 1967, p. 121; 'Milli Türk Ticaret Birliği Senelik Kongresi, Meclis Idare Raporu', *Istanbul Ticaret ve Sanayi Odası Mecmuası*, January, 1924, p. 174. The first *national* administrative committee of the Chamber was as follows: "İbrahim Paşa Zade Hüseyin Hüsnü Bey, Kibar Sarım Bey, Hamdi Bey, Macit Karakaş Bey, Ekrem Bey, Potamus zade Haydar Bey, Hacızade Mehmet Mesut Bey, Hüseyin Münir Bey, Hacı Recep Bey, Hüsnü zade Sinasi Bey, Habib Zade Ziya Bey, Sezai Ömer Bey, Şahin zade Hasan Tahsin Bey, Sofu zade Sudi Bey, Ziya Molla Bey, Avunduk zade Uzeyir Bey, Ali Cavuş zade Hamdi Bey, Kir zade Savki Bey, Giritli Hüseyin Nafi Bey, Mustafa sükrü Bey, Rifat Kamil Bey, Nemli zade Mithat Bey, Veli zade Mustafa Faik Bey." H. NEZİHİ, (1932), p. 263.

of the Turkish Nationalism.²⁶

One of the first activities that the Association planned to do was to organize a *Foreign Trade Congress (Ticaret-i Hariciye Kongresi)* which was cancelled by the attempt of the Ministry of Economy to organize a similar congress, the Izmir Economic Congress.²⁷ The Turkish National Trade Association then concentrated on the Izmir Congress to represent the Istanbul merchants in the congress. Two preparatory meetings were held in Istanbul and the Association not only organized the merchants but also the workers and the artisans as well.²⁸

The decisions taken in the Istanbul by the Turkish National Trade Association which later would be proposed to the Izmir Economic Congress can be summarized as follows:

"1)The improvement of the domestic and national industry and not permitting the foreign intervention to

²⁶.H. NEZİHİ, (1932) clearly draws the turning point."Hüseyin Beyin riyasetinde tesekkül eden yeni heyetin Odamız tarihinde -milli irademizin feyyaz neticelerinden biri olmak üzere -çok yeni ve çok zinde bir devre actığını kaydetmek vazifesindeyiz. İnhitat devresinde ihmale uğrayan işler, azalan ictimalar, Oda gezetesinde çıkan çok defa manasız yazılar, mühmel, zabıtlar kudretli bir gürüş ile tesbit ve ıslah edilmiştir. Oda, Hüseyin Beyefendinin riyasetlerine kadar kaçan müddet zarfında hemen daima gayri Türklerin elinde kalmıştı denilebilir, Oda ve idare heyetlerinde Türk unsuru için en büyük mertebe -pek az bir istisna ile- İkinci Reislige, Oda kalemlerinde de Tahriratı Türkiye katipliğine, mukayyitliğe ve o da son zamanlarda olmak üzere hademeliğe inhisar etmiştir. Bu vaziyetin ıslahı Hüseyin Bey ve muhterem arkadaşlarının ilk defa meşgul oldukları bir istir.", p. 264.

²⁷.A.H. BASAR, Mesrutiyet'ten Cumhuriyet'e', *Barış Dünyası*, October 1966, no.54, p. 59.

²⁸.BASAR(1966),no 54, p. 699.

provide the supply of the raw materials and domestic production.

2) To abolish the monopoly of the foreign companies which were hand in hand with the Government in production and in trade; and the abolition of monopolies in general.

3) That we have the control of the coasting trade among Turkish ports we should not permit any monopoly for any company except for the transportation activities inside the ports.

4) The establishment of a bank mainly focusing on commerce and owned by the Turkish people.

5) To make amendments in the laws concerning trade and constituting research groups from the merchants for this purpose.

6) To guarantee the influx of foreign capital which is not harmful to us.

7) To make modern reforms in the Istanbul Chamber of Commerce and Industry which is a semi-official organization.

8) To establish contemporary official and/or semi-official organizations to enhance the foreign trade.

9) To make amendments in the income tax (temettü vergisi).

10) To form a professional commission in order to solve the foreign exchange affairs.

11) To provide the consultation of the Government with the Chambers on taxes and on subjects concerning trade and merchants.

12) Opening trading schools in every part of the country and reforming the Trade School in Istanbul in a modern way." ²⁹

The Turkish National Trade Association being the best organized group undoubtedly determined the general atmosphere of the Izmir Economic Congress. The Association persuaded all the other groups -workers, artisans and industrialists- in most of the articles which they pointed out. The Izmir Economic Congress witnessed the victory of the Istanbul merchants represented by the Turkish National Trade Association. In the final declaration of the 'Principle of the Commercial Group' there were six articles

which were related to the reform of the Chamber of Commerce.

They were:

- 1) To open chambers of commerce in every part of the country and to reevaluate the official decree—which was already prepared but not legitimized— concerning the chambers with the wide participation of the merchants and the chambers.
- 2) If the elections of members of the chambers should be determined by the Government this would lead merchants to take no part in the activities of chambers since they will not be apt to support the chamber by heart because of this state intervention.
- 3) To provide enough financial sources to the Chamber in order for it to establish several exchanges and engage in publications related to economic activities.
- 4) In every locality the chambers should be engaged in establishing new commercial and industrial activities which must also be encouraged and protected by the chambers.
- 5) A "General Congress of Chambers of Commerce and Industry" must be organized with the participation of the members of the Chambers.
- 6) The chambers should open exhibitions representing domestic products and raw materials in the commercial and industrial centers of the country. Also Trade Annuals should be published with the help of the Ministry of Economy which should be translated into other languages.³⁰

³⁰ 1923 Senesi Hadisatı İktisadiyesine Umumi Bir Nazar', *Istanbul Ticaret ve Sanayi Odası Mecmuası*, January 1924, p. 161.

The Turkish National Trade Association proposed many theses which reflected the interests of the Istanbul merchants concerning all economic activities of the country. In 1923 they formulated several demands for the regulation of customs duties.³¹ These can be summarized as follows:

- 1)The duality of customs duties between Istanbul and Anatolia must be resolved.
- 2)The fact that the Government supports the Anatolian merchants engaged in flour trade which has a lower price than that of Istanbul wipes out competition which is harmful for trade.
- 3)The products of Bursa should have the same status if they were exported from Istanbul.
- 4)The deposit taken from transitory goods passing through Istanbul should be abolished so that the Istanbul port would again be appealing to foreign trade.

In 1923 the Turkish National Trade Association also dealt with the foreign exchange crisis which was, according to them, caused by the speculative activities of the non-Turkish economic agents. In order to solve the crisis they formed a "Commission for the Struggle with the Foreign Exchange Crisis" in collaboration with the Government.³²

³¹. 'Milli Türk Ticaret Birliği Senelik Kongresi, Meclis idare Raporu', *Istanbul Ticaret ve Sanayi Odası Mecmuası*, January, 1924. p. 173

³².Ibid p. 73.

In the third Congress of the Turkish National Trade Association, two and a half years after its foundation it was generally accepted that the Association successfully accomplished the most important affair of the country, namely the abolishment of the monopoly in tobacco.³³ But shortly afterwards, it was understood that the Government still persisted on its monopolistic attitude because it again conferred the monopoly of tobacco to another company in spite of the pressure exerted by the merchants, namely by the Turkish National Trade Association and the Chamber of Commerce and Industry.

The promotion of Turkish merchants abroad had become a very important function of the Turkish National Trade Association. Here the interesting point was that the official missions of the young Turkish Republic in collaboration with the Association played the critical role in this issue.³⁴ In addition to these promotional activities the Association also behaved as a mediator in the problems faced by merchants.³⁵

The Association also managed to cancel the very heavy obligation of the "tax for military transportation" which was thought to be loaded on the merchants.³⁶

³³. 'Milli Türk Ticaret Birliği Senelik Kongresi', *Istanbul Ticaret ve Sanayi Odası Mecmuası*, May 1925, p. 877.

³⁴. Ibid p. 878.

³⁵. Ibid p. 878.

³⁶. Ibid p. 877.

In the third annual Congress of the Turkish National Trade Association the activities other than the ones I mentioned above were summarized in the following points:

1)With the help of Turkish commissioners in Marseilles and in other places, the encouragement of the trade was investigated.

2)The Turkish National Trade Association engaged in the marketing of the Turkish tobacco according to the request of the Ministry of Economy.

3)The Association worked for the resolution of the controversy between the merchants and the customs duties. For this reason an attempt for the establishment of an organization was achieved.

4)The Ministry requested the Association to investigate the limits of opium production to present in the forthcoming International Opium Congress.

5)The Association proposed to the Government to renew the regulation about the joint-stock and limited companies.

6)With the request of the Trade Committee of the National Assembly, the Turkish National Trade Association examined the Labor law and made some propositions resulting from this investigation.

7)Some members were sent to participate the negotiations of the *League of Nations*.

8)The Association dealt with the controversy between the *Seyr-i Sefain Company* and the shipmen in order to reach a consensus.

9)The publication of the Trade Annual was encouraged.³⁷

The Turkish National Trade Association was founded for the sake of the Istanbul merchants and its most important task was to "nationalize" the Istanbul Chamber of Commerce and Industry. After they solved this most important task, most of the activities of the Association were transferred to the Chamber. Although the Turkish "National Trade Association never accepted that the Association and the Chamber were the "same", it is obvious that this was the situation.

³⁷.Ibid p. 879.

CHAPTER 5

THE MERCHANTS AND THE İZMİR ECONOMIC CONGRESS

On the eve of the declaration of the Turkish Republic a very important congress, The İzmir Economic Congress, was held in İzmir on February 17, 1923. The significance of the İzmir Congress came not only from the conjuncture of the time but also from the implications of the economic policies and perspectives which, to some extent, influenced the forthcoming era. Whether the decisions adopted by the Congress were realized into the economic reality or not, the Congress was of great significance since the political and economic policies and intentions were declared both at the national and international level.

The İzmir Economic Congress was held during the interval between the two sessions of the Lausanne Peace Conference. Many historians argue that the Congress had functioned, although it was not planned for that reason, as a way to put a pressure on the Allies in the Lausanne Conference.¹ The Conference ended on February 4, 1923 and the İzmir Congress began on 17 February, 1923. A similar comment was also sponsored by Ahmet Emin Yalman in the Istanbul newspaper *Vakit* two days before the commencement of the Congress: "...one of the results of the Congress should

¹. M.M. FINEFROCK, 'Laissez-Faire, The 1923 İzmir Economic Congress and Early Turkish Developmental Policy in Political Perspective', *Middle Eastern Studies*, V17, July 1981, p. 376.

be the demonstration of the directions of the interests of the Turkish people to the whole world."² Turkey in War against the 'Allies' was perceived suspiciously by the Western countries especially on the point of which economic system she should like to favor. Also when the Russian influence is considered in the foreign relations of Turkey, the significance of the messages sent to the Western world can better be understood.

The idea to organize such a congress by the Ministry of Economy emerged just after a similar attempt of the *Turkish National Trade Association (Milli Türk Ticaret Birliđi)* which was founded in Istanbul on December 1, 1922.³ This association gathered the Turkish commercial group in Istanbul where a powerful class of non-Muslim commercial bourgeoisie still prevailed. They wanted to conduct a conference called the "*Foreign Trade Congress*" (*Ticaret-i Hariciye Kongresi*) in Istanbul. As S. İlkin argued, the conference was planned to be held as a reaction to the foundation of a joint-stock company called *Türkiye Milli İthalat ve İhracat Anonim Şirketi* (Turkish National Export

². A.E. YALMAN, *Vakit*, February 15, 1923, quoted from A.G. ÖKCÜN, *Türkiye İktisat Kongresi 1923-İzmir*, Ankara 1968, p. 42; also M. TUNÇAY in *Türkiye Cumhuriyeti'nde Tek Parti Yönetiminin Kurulması (1923-1931)*, Ankara, 1981 p. 185 points out a similar approach. As for him, it was for the purpose of giving confidence to the Allies in the Lausanne Conference which determined the overwhelming support for the private enterprises in the Congress.

³. A.H. BAŞAR, 'Mesrutiyet'ten Cumhuriyet'e', *Barış Dünyası*, no.54, November 1966, p. 696.

and Import Joint-stock Company)⁴. Having been founded in September 1922 by the participation of many Turkish bureaucrats in Ankara, the company had almost gained all the privileges in the Turkish export and import trade much like a monopoly.⁵ It was therefore natural for the Istanbul merchants to be against the company because even the American merchants were making complaints about the company.⁶ Under these circumstances on January 2, 1923 the Minister of Economy, Mahmut Esat Bozkurt, sent a telegram to the Turkish National Trade Association requesting to delay their initiative of December 1922 and to participate to the Izmir Congress.⁷

It is difficult to understand the attitude of the state towards the Istanbul commercial bourgeoisie. On the one hand, the intervention of the Ministry of Economy to the congress of the Istanbul merchants (*Ticaret-i Hariciye Kongresi*) seem

⁴.S. İLKİN, 'Türkiye Milli İthalat ve İhracat Anonim Şirketi', *METU Studies in Development (ODTU Gelişme Dergisi)*, Spring 1971, no: 2, p. 210.

⁵.Ibid p. 201.

⁶.Their complaints were mainly because of the partnership of the company with a British cartel, *Corporation For The Economic Development of Turkey*, but; nevertheless, it was by the existence of such a monopoly supported by the government in Ankara that made the situation against their interests. Ibid p. 215.

⁷.A.H. BAŞAR, *Mesrutiyet'ten Cumhuriyet'e*, *Barış Dünyası*, October 1966, no.54, p. 59. Also see in ÖKCÜN G.A., *Türkiye İktisat Kongresi 1923-İzmir*, Ankara, 1968, p. 86, the original version of the telegram requesting to delay the *Foreign Trade Congress (Ticaret-i Hariciye Kongresi)* which was later cancelled.

to be clearly against them, at least for that time being. When this situation is considered it becomes unlikely to agree on the thesis that the economic Congress was convened for the purpose of the "conciliation of the Ankara Government with imperialism via the commercial bourgeoisie of Istanbul"⁸ We know also from the memoirs of Başar that the relations between the Ankara Government and the commercial bourgeoisie in Istanbul had often been troublesome. Even the Turkish merchants often complained about the Government attitude towards them.⁹ On the other hand, as Ilkin argues, the Izmir Economic Congress should have been a turning point in their relations. By the Congress the suspicion of the Istanbul bourgeoisie almost withered away.¹⁰

Furthermore, it is interesting that Izmir, not Istanbul, was preferred for the Congress. The reason for this may be explained by the nationalistic ideology of the cadres

⁸. See F. BAŞKAYA, *Paradigmanın İflası*, 1991, p. 130, S.Yerasimos in his article 'Tek Parti Dönemi' argues that the Izmir Congress was the confirmation on the share of the political power by the bourgeoisie. In that sense he is in line with Başkaya, S.YERASIMOS, 'Tek Parti Dönemi', in E.A. TONAK & I.C. SCHICK, *Geçiş Sürecinde Türkiye*, Istanbul, 1990, p. 88.

⁹. Ahmet Hamdi Başar several times in his memoirs mentions that the central Government in Ankara would have thought itself threatened by the economic power of the commercial bourgeoisie centered in Istanbul. *Barış Dünyası*, January 1967, no: 56.p. 58.

¹⁰. S. İLKİN, 'Türkiye Milli İthalat ve İhracat Anonim Şirketi', *METU Studies in Development (ODTÜ Gelişme Dergisi)*, Spring 1971, no: 2, p. 199.

who conducted the struggle against the Western powers. Izmir was the symbol of the national struggle and it was the most developed city among the Anatolian cities.

"... the city (Izmir) undoubtedly would have a very stimulating effect on the patriotism of delegates arriving from the hinterland of Asia Minor. Moreover, as the result of fire and war, Izmir was then the only wholly Turkish city of any size or significance in the country, since multiracial Istanbul remained under military occupation by the Allies."¹¹

The Izmir Economic Congress with its 1135 delegates was introduced on February 17, 1923 by the speech of Kemal Atatürk.¹² Rather than pointing out an economic policy he sponsored general thesis on the history of the Ottoman Empire and emphasized the role of the economic hegemony for the national sovereignty and underlined the absence of Turkish "national history".¹³ In particular his attitude towards the role of foreign capital was, at a first glance, interesting for a nationalistic discourse since he was so sure about the role of foreign capital in the development of the economy providing they obey the Turkish Laws.¹⁴ There are also other factors which determined this credit given to

¹¹.M.M. FINEFROCK, p. 376.

¹².C. PRICE, in *The Rebirth Of Turkey* written in 1923 and many other writers give contradictory numbers on how many delegates participated the Congress.

¹³.A. AFETİNAN, *Izmir İktisat Kongresi*, Türk Tarih Kurumu Yayınları, Ankara, 1982, p. 58.

¹⁴.Ibid. p. 65.

foreign capital such as the Greek anti-propaganda that the new regime was hostile to foreign capital. There were some evidences concerning about this anti-propaganda as articles were written in the Istanbul dailies reacting to it.¹⁵

The delegates were chosen on the basis of occupational representation which reflected the dominant corporatist ideology.¹⁶ Each representative from the industry, commerce, banking, labor, handicrafts and three from the agricultural sectors were chosen by a committee composed of members of the local municipal council, by the chambers of commerce, handicrafts and agriculture presided over by the highest local civil official.¹⁷ Although the four main groups—industry, commerce, labor and agriculture—were represented, the most powerful one which dominated the others became the commerce since they were the most strongly organized group among them. First of all, the final decisions about the commerce were accepted as the group representing the

¹⁵.The original news published in *İkdam* (January 9, 1923) and in *Aksam* (February 7, 1923) can be found in A.G. ÖKCÜN, 1968; pp. 6, 7.

¹⁶.For further discussion on corporatism see Z. TOPRAK; 'Türkiye'de Korporatizmin Doğuşu', *Toplum ve Bilim*, Winter 1980, no.12, and T. PARLA, *Ziya Gökalp, Kemalizm ve Türkiye'de Korporatizm*, Istanbul 1989, especially pp. 7-20.

¹⁷.See FINEFROCK p. 376, A.G. ÖKCÜN, p. 186; and S.H.DEGMER in the left wing periodical *Aydınlık* (February 10, 1923, no: 13, p. 335).He criticized the way the representatives were chosen.What he wrote was that the delegates who were workers and farmers were not chosen but authorized.He also added the impossibility of participation of a worker eventhough they were not designated since a worker could not afford the price of a ticket to travel to Izmir.

commerce desired.¹⁸ Secondly, this group were able to convince the others in many of the important items. *Turkish General Workers Association (Türk Umum Amele Birliđi)* and *Turkish General Artisans Association (Türk Umum Esnaf Birliđi)* also took part in the Congress but they were unable to support their interests since they were directly formed and influenced by the *Turkish National Trade Association*.¹⁹

The Izmir Economic Congress also appealed the interests of the foreign countries:

"The Izmir Economic Congress convened on the second floor of a fig-packing warehouse owned by Hills Brothers, Inc., of New York. A representative of a U.S. High Commissioner and the American vice-council in Izmir, along with the senior U.S. naval officer in port and several American businessmen, were treated as honored guests and conducted to their seats by Boy Scouts and gendarmes. Also present as observers were the British vice-council and the ambassadors of Russia and the Azerbaijan S.S.R."²⁰

At the end of the Congress a degree called the National Pact was accepted. In addition to the National Pact, the economic principles of each group including the commerce, industry, farmers and workers were published. The principles

¹⁸.See Y.S. TEZEL, *Cumhuriyet Döneminin İktisadi Tarihi*, Ankara, 1986, Yurt Yayınları, p. 132.

¹⁹.A. H. BAŞAR in his memoirs in *Barış Dünyası*, no: 54, November 1966, p. 699, undoubtedly writes how the *National Trade Association* managed to create the other two associations.

²⁰.See M.M. FINEFROCK, p. 377. There is a contradiction about the owner of the building where the Congress took place since a newspaper of the time, *Aksam* (March 9, 1923, p. 3) states that the building was owned by the Ottoman Bank, in A.G. ÖKCÜN, p. 242.

were accepted through discussions among the groups.

In the "Economic Principles of the Farmers' Group" 93 points were discussed and many of them were accepted by the majority of the delegates. The integration of the hinterlands with the port cities by the railways and sea transportation; the abolition of tithe(*asar*) and its replacement by another tax; the establishing of the security in the rural areas; the abolition of the *Regie* company which was the monopoly in tobacco production; the reform of the credits of *Ziraat Bankası* (the agricultural bank); the exemption of customs duties from the imported machinery used in agriculture and several other details were discussed and accepted.²¹ From the 93 points, the workers group rejected five of them while the commerce group and the industrialists rejected two and one of them respectively. The refused proposals were the ones requesting exemptions from taxation.²²

129 points were laid down for discussion in the "Economic Principles of the Commercial Group". The Congress adapted most of the proposals sponsored by the *Turkish National Trade Association*.²³ The establishment of a bank mainly focusing on commerce and owned by the Turkish people; the nationalization of the foreign exchange centers and

²¹. A.G. ÖKCÜN, 1968, pp. 387-405.

²². Ibid p. 402.

²³. Y.S. TEZEL, 1986, p. 132.

stock markets; a protectionist tariff system; exemptions from the customs duties of the commodities which were not produced domestically; the abolition of the monopolies; the reorganization of the Chambers of Commerce and industry; etc. were some of the proposals that were accepted by the majority of the delegates. The workers group and the farmers group refused three points while the industrialists refused only one. When compared to the other groups, "The Economic Principles of the Commercial Group" draws a comprehensive outlook to the whole economy.²⁴

It is possible to find the core of the industrial policies and institutions in the 1920s when we closely look at the "Economic Principles of the Industrial Group". A protectionist policy of customs tariff; the exemption from the customs duties of the equipment and the machinery which would be used in the industry; a different price policy in the transportation of the industrial products; the reevaluation of the law for the Encouragement of Industry which was laid down in 1913; the establishment of a bank supplying credit for the industry were some of the basic principles of the industrial group. Of the 26, three of them were refused only by the workers one of which was the formation of an artisans' (*esnaf*) organization and guilds.²⁵

Finally by the "Economic Principles of the Work-

²⁴.A.G. ÖKÇÜN, 1968, pp. 406-425.

²⁵.Ibid. p. 429.

ers'Group", strikes and trade unions became legalized. However, in practise it was nearly impossible to put them into practise until it became absolutely illegal in 1930.²⁶ Also accepted were the social security services and maintaining a standard level of working conditions. Furthermore, only Turkish labor force was obliged to be used in Turkish territories. From a total of 34 points, 6 were refused by the commercial group while 4 of them were refused by the industrial and farmers' group. All three of the groups refused the "nationalization of the privileged companies" and the annual holiday for the working class which were proposed by the workers'group.²⁷

The *Economic Pact* mentioned above is the well-known document as the declaration of the Izmir Economic Congress consisting of 12 points:

- 1)In the limits of its frontiers, Turkey enjoying complete independence constitutes an element of peace and progress in the world.
- 2)The Turkish people, having obtained their national sovereignty at the price of their blood, will no longer suffer the least sacrifice in this respect. They will give their support always to the Assembly and to the Government which have for its foundation to the popular sovereignty.
- 3)Turkish people are not factors of destruction.
- 4)The people are trying to produce, as far as possible, articles for their consumption.
- 5)From the point of view of national resources and wealth, the Turkish people are conscious that they posses golden treasures.
- 6)Theft, lying, hypocrisy, laziness—these are our deadly enemies. A solid faith, free from all

²⁶.TEZEL Y.S., 1986, p.133.

²⁷.ÖKCÜN A.G., 1968, pp.432-434.

- fanaticism, is the fundamental principles of our life. We shall adhere always to useful innovations.
- 7)The Turk is the hearty friend of enlightenment and of the sciences.
- 8)Our ideal is to insure the increase of our population (decimated by wars and privation of all sorts)and to safeguard our health.
- 9)The Turk is always the friend of people who are not against his religion, his life, and his institutions. He is not the adversary of foreign capital. But in his country he entertains no relation with organizations incompatible with his laws and language. He draws from the springs of science and the arts everywhere. He repudiates every *intermediary* in his relations.
- 10)The Turk loves to work freely and does not want any *monopoly* in business.
- 11)In his consideration of class and profession, the Turk sympathizes with his compatriots.
- 12)The Turkish woman and the Turkish schoolmaster mould the children in accordance with the precepts of the Economic Pact."²⁸

Far from being concerned with economy, the *Economic Pact* was more of a text of ethics and nationalist ideology.²⁹ As the Minister of Economy admits:"I think that in the following years we will be able to carry out an

²⁸.E.G. MEARS, *Modern Turkey, a politico-economic interpretation*, New York, 1924, The Macmillan Company, p. 27.

²⁹.Several critics about the discourse of the Pact focuses on the same point:"Fakat mezkur Misak'ın bazı maddeleri iktisadi milliyeye aid olmaktan ziyade ahlak-ı milliyeye temas eden bir takım umdelerden mürekkeptir."US M.A., *Vakit*, March 2, 1923, p. 2; in ÖKCÜN p. 349 ";and "...Fakat bunun başına Misakı İktisadi yerine Misak-ı Ahlaki demek ve iktisadiyatımız hakkında bu kadar basit fikirler vermemek daha doğru olmaz mı idi?" N.S., *Aksam*, March 8, 1923, p. 3, again in ÖKCÜN p. 371. ;"Bu Misakın ismi dini ya da ahlaki olmalı idi."S.N. İLERİ, *İleri*, March 6, 1939, in A.G. ÖKCÜN, 1968, p. 371; And also the British Foreign Office Report about the Pact says:"... (it was) more a manual for Boy Scouts than an economic program", in M.M. FINEFROCK, p. 381.

economic pact in the *completely economic* sense."³⁰

Although the *Economic Pact* is a text of ethics, two emphasis are worth to note for the general economic approach. The first one is that "The Turk does not want any monopoly in business. "At first glance it seems an ordinary emphasis however, when the *Regie* tobacco monopoly is considered as an important debate of the time, it reflects a clear support in favor of the *Turkish National Trade Association's* approach. As the secretary general of the Association Ahmed Hamdi Başar says:"Finally it (The Congress) became a further step in solving the country's most important economic affair, the *Regie*."³¹

The second point worth noting is the refusal of the intermediaries in economic activities emphasized in the ninth point of the *Economic Pact*. From the 18th century onwards, the integration of the Ottoman economy into the world economy was carried out by the non-Muslim communities. It is especially in the World War I that the national economy began to be forming. That the role of the non-Muslim intermediaries was always perceived as a nationalistic problem should have determined the mode the text was written in the Congress.

The historical role of the Izmir Economic Congress in

³⁰.See A.G. ÖKÇÜN, 1968, in p. 334 which was published in *Aksam*, March 25, 1923.

³¹.A.H. BAŞAR, "1923 Senesi Hadisatı İktisadiyesine Umumi Bir Nazar", *Istanbul Ticaret ve Sanayi Odası Mecmuası*, January 1340 (1924).no.3, p. 160.

the Turkish economic and political life have been a point of controversy. Just shortly after the Congress the Minister of Economy, Mahmut Esat Bey analyzed the results of the Congress as follows: 1)The Turkish people noticed the importance of economy. 2)Now that it will take place every year the Congress will serve as a controller of the Governments. 3)It determined the economic necessities and to made them be acknowledged by the Governments. 4)It showed the advantages of occupational representation. 5)It proved that the Turkish people are not only men of war but *modern* men as well. 6)It served for the economic agents of the country as a way to get acquainted with each other.³²

It is generally accepted that The Izmir Economic Congress is of significance not because of its economic policies but because of its political messages. While it was the time the Republican Party had not been established, it was a great opportunity to learn the general socio-economic trends of the social classes and to influence them since there were many different active people from all parts of the country who would carry out the messages to the whole countryside. As Finefrock argues:

"..The Congress appears to have been far more important as a source of politically exploitable slogans than as

a watershed of economic policy.³³

As examples were mentioned above about the attitude of the Istanbul press which were critical unlike the Minister of Economy, there is another debate about the extent to which the declared principles of the Congress determined the future policies of Turkey. Tezel argues that the main principles of all the groups but the workers were realized in the 1920s.³⁴ However, Herschlag thinks that many of the principles of the Congress contradicted later developments. For him mainly two factors affected the situation: a)The Gazi was compelled at first to seek compromises with certain elements, opposed to him and still active, at least until 1927; but after he gained undisputed control of national affairs, economic policy changed also. b)In the early days of the Republic there had been a fairly large gap between declarations and plans, on the one hand and the realities of a country retarded in social and economic development on the other.³⁵ Ahmet Hamdi also argues that the Congress failed to realize its aims since the realities of the country were so different that the intelligentsia having taken the Western

³³.See M.M. FINEFROCK, p. 384.,also on the same point in an Istanbul daily Ahmet Cevdet writes:"İktisat kongresinin bu neticesinden en ziyade istifade edecek olanlar hükümet ile memleketteki siyasi fırkalardır." *İkdam*, February 15, 1923, p. 1 quoted from G.A. ÖKÇÜN, 1968, p. 357.

³⁴.Y.S. TEZEL, 1986, p. 133.

³⁵.Z.Y. HERSCHLAG, *Turkey, The Challenge of Growth*, 1968, p. 15.

example couldn't notice the difference.³⁶



³⁶A.H. BASAR, 'Mesrutiyet'ten Cumhuriyet'e', *Barış Dünyası*, December 1966, no.55, p. 762.

CHAPTER 6

THE 1924 REPORT OF THE ISTANBUL CHAMBER OF COMMERCE AND
INDUSTRY ON THE SOCIO-ECONOMIC CONDITIONS OF ISTANBUL

One of the most important attempts of the Istanbul Chamber of Commerce and Industry was the preparation of a report on the economic conditions of Istanbul in 1924. The significance of this report as a historical source can be discussed in two respects. Firstly, it reflects the general world view of the Turkish bourgeoisie of the time and secondly it provides comments, analysis and reliable data about the economic life in Istanbul. When the economic development of Istanbul within the young Republic is considered, the analysis and comments of the report were related to more than merely the economy of a single city. Istanbul had hitherto been the center of industry, finance and commerce of the Ottoman Empire. Besides, this report was the only and the most important accomplishment of the Istanbul Chamber of Commerce and Industry (ICCI) in 1924.

The idea to conduct such a research came from Fethi Bey who was the president of the Grand National Assembly and an Istanbul deputy minister. His letter to the Chamber dating January 11, 1924 requested a research about the development of economic activities in Istanbul which sharply slowed down after the period of the everlasting wars. Also requested was the investigation of the insufficient participation of Turks

in the economic life of Istanbul. The latter request is interesting since at the time the majority of the members of the Chamber still consisted of non-Muslims.¹ This attitude was closely related to the power struggle in the Chamber since the Turkish merchants, having been organized under the National Trade Association since December 1922, were struggling to capture important administrative offices of the Chamber. This fact sheds light on the timing of the convention on January 18, 1924 gathered by the Congress of the National Trade Association which was directly involved in the aforementioned power struggle within the ICCI.

On January 27 of 1924 Cavit Bey, the former Economy Minister and a famous figure of the former Union and Progress Party (UPP) was elected by the Chamber of Commerce and Industry as the director of the research commission.² This appointment was politically important when the conflicts of the new regime with the UPP was considered. Ahmet Hamdi Bařar in his memoirs said that Cavit Bey was elected with the approval of Fethi Bey.³ The fact that the report was not discussed broadly in the media was attributed

¹.I. TEKELI & S. ILKIN(1986), '1923 Yılında İstanbul'un İktisadi Durumu ve İstanbul Ticaret ve Sanayi Odası İktisat Komisyonu Raporu',p. 262.

².Ibid p. 263.

³.A.H. BAŞAR, 'Meşrutiyet'ten Cumhuriyet'e', *Barıs Dünyası*, no 58, March 1967, p. 179.

to the political position of Cavit Bey by some historians.⁴ It was not so surprising that the Turkish press did not express concern about the report due to the political attachment of Cavit Bey with the UPP.

The commission began to work on January 30, 1924 and completed the report on November 26 of the same year. They made interviews with 104 concerned parties.⁵ It was not prepared in collaboration with the official milieu since, as stated in the preface of the report, the decree for the assistance of the commission by the Prime Ministry were not sent to the offices.⁶ The report was submitted to Fethi Bey (Okyar) who became Prime Minister on November 22, 1924. He was also the founder of the first opposition party in the Republican era, the *Terakkiperver Cumhuriyet Fırkası*, on November 9, 1924.

Although the commission was asked to concentrate on how Turks could be effective in the economic life of Istanbul, it is interesting to note that the resulting report did not touch up this issue in a significant way. In the introduction of the report Cavit Bey argued that what was

⁴.I. TEKELİ & S. İLKİN(1986).p. 264.For a detailed study on the relation of Union and Progress with the Kemalist Government see Zürcher J.E.,*Milli Mücadelede İttihatçılık*, İstanbul, 1987. Bağlam Yayınları.

⁵.İSTANBUL TİCARET VE SANAYİ ODASI, *Ticaret ve Sanayi Odasında Müttesekkil İstanbul İktisat Komisyonu Tarafından Tanzim Olunan Rapor*, İstanbul. Zellic Biraderler Matbaası, 1341(925),(in Ottoman script),p. 1.

⁶.I. TEKELİ & S. İLKİN(1986),p. 265.

important was to develop the economy of Istanbul as a whole. He stressed the point that the discussions concerning the Turkish dominance of economic activity were due to the unquestionable economic power of the city. What he pointed out was that it was primarily the development of Istanbul economy regardless of its ethnic composition. It followed that if there had existed no real economic power in the city, no question of Turkish dominance would have come to the agenda.⁷

The report consisted of six chapters. In the first one the backward position of the Turks in the Istanbul economy was investigated. The second one called "müstahsil Istanbul" (productive Istanbul) focused on the sectorial aspects of the Istanbul economy. The third one was on the Istanbul seaport. The fourth chapter covered the credit and exchange issue. The fifth one was the investigation of the conditions for the attraction of foreign commercial capital into the economy. And the final chapter was called "müستهlik Istanbul"(consumer Istanbul).

The report postulates the causes of the ineffectiveness of the Turks in the economic life in some 21 points. Since the Turkish people were hitherto engaged in the

⁷."Istanbul ağır hastadır ve ahval bu minval üzere devam ettiği takdirde, İstanbul'da edilecek mühim bir mevki-i iktisadi bulunmayacağı için, Türk unsurunun iktisadiyata hakim olmasıyla istigale de mahal kalmayacaktır."From Cavit Bey's introduction to the report, *Ticaret ve Sanayi Odasında Müteşekkil İstanbul İktisat Komisyonu Tarafından Tanzim Olunan Rapor*, 1925, p. 11.

administrative bodies of the Ottoman Empire, they were not interested in economic activities. Before the Tanzimat, there was a successful manufacturing by the handicrafts but with the effects of the industrial revolution in Western Europe and the capitulations, the *esnaf* (handicraft) production collapsed. The non-Muslims having established relations with the foreign economic agents consolidated their positions in the economic life of the Ottoman Empire. The result was the formation of a sharp division of labor between the Turks/Muslims and the non-Muslims. In fact, the Constitutional government of 1908 attempted to motivate the Turks to participate in economic activities especially during the World War I but the result was much beyond the desired level although there were some considerable improvements by means of "*Milli İktisat*" policies. The main reason of this failure was the lack of a tradition among Turks which was required for the persistence of their economic activities at that time. Besides, Turks spent an immense quantity of their money on wasteful expenditures and lost most of their wealth in speculative businesses.⁸ The suggestion of the report on this issue was to attenuate state employment to induce people to search for new alternatives. In addition to this, the report proposed a long run solution in which young generations should be educated in commercial schools in order to initiate such a

⁸.Ibid.p. 12.

tradition.⁹ As compared to the overwhelming nationalistic tendencies of the time, these suggestions can be considered to be of a very soft nature in terms of the ideological elements they incorporate.

In the final point on the place of the Turkish people in the Istanbul economy, the countries that we had to take as an example were pointed out. These were Italy, Russia and Germany one of the striking characteristics of whom was the eminent role of the state in the economy. It was also not surprising that these countries were relatively late industrialized countries.¹⁰

The report included several opinions and proposals for the development of the Istanbul economy. These proposals whether realized or not, were of significance for they represented the major tendencies of the Istanbul merchants towards the economic life.

The analysis of the Istanbul economy was outlined and elaborated in four points. The first one was related to the effects caused by the loss of the city's status of being the capital of the country. As the sensitivity of the new Ankara government was considered the report only touched the issue

⁹.Ibid.p. 13.

¹⁰."Son asrın nısfı evvelinde, iktisaden geri olan İtalya Rusya gibi memleketlerin bilhassa 1870 senesinden sonra sarf ettikleri mesai ve kendileri için çizdikleri program; Almanya imparatorluğunun tesekkülünden sonra tedrisatı iktisadiyeye ifraz ettikleri mühim ve mütena mevki bize yürümek istediğimiz yol için çok kıymetli rehber olabilir.",Ibid.p. 16.

as a way of remembering the old good days.¹¹ No suggestion or proposal on this issue was formulated only implications were made.¹²

The second point which was the most important one was commerce. Trade had three functions in the economy of the city. The first one was the import of several materials from the world which were redistributed to the Empire through Istanbul. The second function of trade was that Istanbul was a transit center for the Black Sea countries and the Middle East. The final one was that trade was functioning for the realization of the agricultural production in the world market.¹³

¹¹."Saltanat-ı müstebide devrinde İstanbul büyük bir imparatorluğun payitahtı olduğu için İskodra'dan Basra'ya kadar memleketin her bir tarafından burada ikamet etmek için pek çok kimse gelir; bir taraftan kavanin ve nizamat-ı devlet haricinde yaşayan ecnebilerle kısmen bu sınıfa ithal edilebilen gayr-ı müslümler diğer taraftan ekseriya gayr-ı meşru sebeplerle iktisab-ı servet eyleyen saray erkanı ve mensubini her sene şehrin gerek piyasa yerlerinde gerek sayfiye mahallerinde apartmanlar, mağazalar, hanlar, köşkler, yalılar inşa ediyorlardı. Bu zamanlarda şehirde de bir tahavvül-i mühim vuku buluyordu. Evvelce gayr-ı meskun olan tepeler en zengin binalarla süslenerek İstanbul o zaman mevcut nüfusundan daha fazla bir ittisa kesb eyliyordu. İki ayda bir çıkan maaş piyasaya bereketli bir faaliyet verirdi; kapitülasyonlar dolayısıyla gümrük rüsumu hafif; istihlak rüsumu gayr-ı mevcut; okturular mevkud ve diğer tekalifin tahsil ve istifası ekseriya müşkil olduğu için İstanbul halkı hizmet-ı devletin sarfiyatına hemen hiç istirak etmez gibi idi. İstanbul'da siyasi nokta-i nazardan hayat ne kadar cehennemî ise iktisadi nokta-i nazardan o derece tatlı idi. Bir milyonu mütecaviz olan İstanbul nüfusu devlete adam başına doğrudan doğruya vergi olarak senevi ancak on-oniki kuruş, belediyeye de ancak onbes-yirmi kuruş verirdi.", Ibid.p. 180.

¹².I. TEKELİ & S. İLKİN(1986),p. 271.

¹³.Ibid.p. 270.

The third point elaborated in the report was the production. This point was taken seriously and several specific commodities were examined such as tobacco, sugar, petroleum, olive oil, leather, mohair, carpeting, shoe making, timber, cement, alcohol, etc.¹⁴

The fourth point was the services. The services included banking, insurance, transportation, tourism, education and so on. Special attention was given to banking and transportation. Banking was of importance since it was related with the credit issue. In terms of transportation, especially the Istanbul seaport was examined rather than the railways since the seaport was a matter of conflicting interests whereas railways were standardized.¹⁵

Especially foreign exchange and the credit issues were examined in detail. These issues were of importance since these are useful in order to understand the indicators of the merchants' ideology.

The report offered proposals on the foreign exchange problems. According to the report, the devaluation of the Turkish Lira was mainly due to the budget deficits and the balance of payment problems. It was argued that the difference between the export and import was the major structural problem of the country which was relatively hard

¹⁴. *Ticaret ve Sanayi Odasında Mütesekkil İstanbul İktisat Komisyonu Tarafından Tanzim Olunan Rapor*, 1925, pp. 21-85.

¹⁵. İ. TEKELİ & S. İLKİN (1986), p. 271.

to solve. It was therefore wrong to accuse the speculative businesses which formed only one tenth of the total trade activity. Even speculative trade often prevents sudden shifts in the prices of commodities and currencies by spreading these shifts over a long time period.¹⁶ Based on these arguments it was stated that state control over foreign exchange transactions would be useless. The solution for the balance of payment problem, according to the report, was the provision of foreign capital.

Another important point that was mentioned in the report was the credit issue and this also could be solved by a flow of foreign capital. There was no reason to be anxious about the penetration of foreign capital since the capitulations were already wiped out. As for the report, the mechanism to provide foreign capital could be the establishment of joint-stock companies and the loosening of the strict procedures of governing the formation of these companies.¹⁷ It was unnecessary to demand half of a joint-stock company capital be owned by Turks or by the

¹⁶."Spekülasyon zeka-yı iktisadiyenin en yüksek seklidir, ihtiyac-ı hakikiyeye müstenit olmasalar bile borsanın nazımıdır.Fiyatların ileride yükseleceğini hisseden spekülâtörler eğer hakiki meslek erbabından iseler müdahaleleriyle bu tereffü veya tenezzülün yavaş yavaş bir sath-ı mail istikametinde olmasını temin ederek, nazımlık rolünü görürler ve bu suretle mesela üç ay sonra kambiyonun birden kırılmasını veya birden tenezzülünü men ile piyasada bir herc ü merc vuku bulmamasını temin ederler." *Ticaret ve Sanayi Odasında Mütesekkil İstanbul İktisat Komisyonu Tarafından Tanzim Olunan Rapor*, 1925, p. 151.

¹⁷.Ibid.p. 146, also see I. TEKELİ & S. İLKİN(1986),p. 295 on the same issue.

Government. In that sense the report by proposing less strict regulations on foreign investment reflected a liberal approach.

To deal with the credit problems of the merchants in particular the report proposed the formation of banks which would operate in the commercial sector. It was emphasized that these banks should not be state-owned. In order to avoid the misuse of these credit opportunities, the upper limit of the credits should be determined by the amount of the capital provided by the credit seeking merchants. This attitude represents the attempt to eliminate the efforts of the bureaucracy who overwhelmingly began to engage in commerce and industry or began to be transformed into merchants.¹⁸

As for the credit problems of the industrialists in particular, the report emphasized the necessity of differentiating credit sources from other sources. It was argued that the main credit source to the industry could not be savings as it was in the case of commercial banking but rather the sources were to be supported by the shares of companies. These banks also shouldn't be founded by the

¹⁸ "...Yoksa tesadüfen tacir olmuş su veya bu kimsenin pek karlı gördüğü bir işe sermaye ikraz etmekle mükellef değildirler. Bu yola giren bankalar vazifelerini suistimal ederler." *Ticaret ve Sanayi Odasında Mütessakil İstanbul İktisat Komisyonu Tarafından Tanzim Olunan Rapor*, 1925, p. 156.

state.¹⁹ Moreover, the report also pointed out the inefficiency of *İtibar-ı Milli Bank* in providing the necessary funding for the industry and hence strengthened the argument about the significance of new industrial banks.²⁰

The report also revealed the credit problems of petty producers. It was stated that this problem could not be solved by using the banking system. Instead, they proposed the formation of producer cooperatives which might be called "Union of cooperatives". By the help of these cooperatives, petty producers could consolidate their power which as a single producer they could never obtain.²¹

For the housing (emlak) credits, again foreign capital was considered to be the major source in the report. Banks merely being engaged in housing credits should be established and they would use the shares of the mortgaged assets as a financial source. However, in order to attract foreign capital more legislative regulations should be reformulated in order to allow the banks to have control over these assets.

¹⁹."Sanayi bankalarının tesisini hükümetten bekleyenler vardır. Böyle bir tasavvurun muvaffakiyetle kabil-i tatbik olabileceğine komisyonumuzun kanaati yoktur. Sanayi kredisinde muvaffakiyet için umuru layıkıyla takip etmek, bu hususta sıkı sıkıya alakadar olmak, bankanın basına hem bankerlikten anlayan hem san'atı takip etmeye muktedir adamlar bulmak lazımdır." Ibid.p. 160.

²⁰.Ibid.p. 167.

²¹.Ibid.p. 159.

The report also mentioned customs duties as a tool of economic policy. The importance placed on customs duties was merely to their domestic relative price effects, namely, the price increases induced by the customs duties. The fact that customs duties constituted a major source of government revenue was neglected. The general tendency of the report on this issue was to blame the customs duties for the high domestic prices. Within the subsection on customs duties the sectors of economy were differentiated both in the relative importance of their output for the economy and their ability to provide for the domestic demand. The first group incorporated the sectors whose outputs were necessary but not sufficient to meet the domestic demand. For this group the report suggested a certain level of protection whose extent should be within reasonable limits. The second group consisted of sectors whose production was considered to be costly and hence was believed to induce unnecessary price increases. This in turn, was hypothesized as one of the leading causes of smuggling. The third group was identified as those sectors which supplied an important portion of intermediate goods for domestic production. The last group in the report included the sectors which would not be established in the short run. The report emphasizes that tariffs for such materials should be decreased in order to lower the prices.²²

²².i. TEKELİ & S. İLKİN(1986),p. 299.

This report is very useful in many respects. While it is possible to draw the economic conditions of Istanbul at the time, we can also understand the elements of the merchant's ideology before the strong influence of Turkish nationalism came to power in the Chamber. This was especially true when we analyze the attitude towards non-Muslim intermediaries. As I tried to indicate above the 1924 report was not enthusiastically against non-Muslims. However, many common ideological elements can be observed also in the forthcoming period. Two perspectives were supported confidentially as far as I am concerned: The first one was that state must not intervene to the economy in any case. This opposition was clearly motivated from the prevailing liberal approach. Besides as I tried to explain this attitude towards the state could also be due to the untrustworthy sentiment of the Istanbul merchants to the Ankara government since they were strongly against to use bureaucratic privileges in economic activities. And the second perspective was the belief that many economic problems could be solved by the inflow of foreign capital.

CHAPTER 7
ISTANBUL CHAMBER OF COMMERCE AND MONOPOLIES:
THE CASE OF THE REGIE

In the early Republican era, the sale of monopolistic privileges of certain articles to foreign firms was considered to be a source of government revenue as it was before the Commercial treaty of 1838. After this liberalizing treaty, the 'free trade' policies of Britain did not tolerate a wide applicability of monopoly until 1923. In December 1924, a Belgian group was granted the match monopoly and in 1927 a French group, Minelite, was able to obtain the monopoly of importing gunpowder and explosives while the spirits and alcohol monopoly was granted to a Polish consortium, Natchalna, in June 1926.¹ However, none of the aforementioned monopolies had attracted any strong opposition of Turkish merchants as did the tobacco monopoly existing since 1884.

In many of the modern European countries tobacco monopolies were a source of state revenue. It was after 1874 that tobacco monopolies began to emerge in the Ottoman Empire. Before this date, the banderole system was used in which manufacturers bought the banderoles from the government and wrapped them all around the packets of

¹K. BORATAV, *Türkiye'de Devletçilik*, Ankara, 1974, pp. 75-85 and C. KEYDER, *The Definition of a Peripheral Economy: Turkey 1923-1929*, Cambridge, 1981, p. 95.

cigarettes. ²

The Regie (the Societe de la Regie Cointeressee des Tabacs de l'Empire Ottoman) as a monopoly was established in 1884. This monopoly was able to control the purchase and export of Turkish tobacco.³ The profits of the Regie were distributed among the state, the Public Debt Organization and the monopoly itself. In fact, the monopoly was a by-product of the Public Debt Organization. The establishment of the monopoly was challenged with a strong resistance in the Ottoman society since thousands of people whether as producers or as merchants were somehow concerned with tobacco. Tobacco as a raw material or as a semi-finished commodity was almost the most important material in the Ottoman economy which was predominantly based on agriculture. With the inauguration of the Regie, some 300 manufactures were closed.⁴ Producers and merchants were in opposition to the monopoly which was directly against their benefits. As Quataert puts it:

"Inauguration of the monopoly immediately affected various groups in Ottoman society. Tobacco cultivators suddenly found themselves responsible to agents of a foreign corporation that controlled their means of livelihood and levied taxes. Old economic and social relationships disintegrated and new ones emerged. For

²D. QUATAERT, *Social Disintegration and Popular Resistance in the Ottoman Empire, 1881-1908*; Reactions to European Economic Penetration, New York University Press, 1983.p. 14.

³C. KEYDER(1981),p. 95.

⁴D. QUATAERT, (1983).p. 17.

some, existing credit networks changed overnight. This was due to the fact that, in the Samsun and Trabzon area (and certainly as well), tobacco merchants and local landholding notables, often working together, frequently had provided cultivators with credit and, in payment, either directly received portions of the harvest or the right to purchase it at below market prices. The "usurers, "so often the subject of vituperative attack by European observers, served important economic functions. They not only provided sorely needed capital that kept the cultivators financially afloat but furnished vital farm-to-market links. Many such arrangements probably collapsed since the concession required the Regie to provide cultivator loans, for up to 50 percent of the estimated value of the crop, without any interest charges whatsoever. By 1902, these loans, that could not be used to prevent tobacco exports and had to be repaid prior to the transfer of the crop to a buyer, annually averaged 150,000 to 200,000 liras. Former creditors lending for interest lost that income while those furnishing loans against future crop deliveries saw their marketing networks threatened and even disappearing."⁵

The Regie was responsible for the decay of about 300 factories. On the other hand, it had been creating employment opportunities for large number of Ottoman subjects. Some 9000 people were employed in the administrative and surveillance jobs. Nearly all the people engaged in the duty of control and supervision and in the top level administrative bodies were foreign as would be expected.⁶ However, the provincial executives were entirely natives which enabled the Regie to collect taxes in a country which have never become a colony. Such an application could cause severe tensions among the people.

The Istanbul Chamber of Commerce and Industry was quite

⁵.Ibid p. 16.

⁶.Ibid p. 14.

concerned about the monopoly problem in tobacco. In its journals and publications this problem was thoroughly discussed. The merchants were able to convince the Izmir Economic Congress to abolish the Regie. According to the opinion of the Chamber, the Regie problem was the most important task that had to be solved: "Finally it (The Congress) became a further step in solving the country's most important economic affair, the Regie."⁷

In the journal of the Chamber, *Istanbul Ticaret ve Sanayi Odası Mecmuası*, it was hitherto emphasized that all the classes of the country were against the Regie. The governing body of the Istanbul Chamber of Commerce and Industry had sent a telegraph to the other chambers requesting the making of propaganda for the support of the abolishment of the Regie.⁸ It was because of the large number of critiques that the Government accepted a policy in order to abolish the Regie in its program.⁹

As Hamdi Başar pointed out representing the official view of the Chamber, the monopoly question should also be elaborated within a wider context. For this reason, they argued, etatism should have to be defined carefully.

⁷. A.H. BAŞAR, '1923 Senesi Hadisatı İktisadiyesine Umumi Bir Nazar', *Istanbul Ticaret ve Sanayi Odası Mecmuası*, January 1340 (1924), no.3. p. 160.

⁸. HUSNU HÜSEYİN, 'Reji Meselesinde Ticaret Odasının Diğer Ticaret Odalarına Muracaatı', *Istanbul Ticaret ve Sanayi Odası Mecmuası*, October, 1924, p. 541.

⁹. A.H. BAŞAR, 'Tütün ve Reji Meselesi', *Istanbul Ticaret ve Sanayi Odası Mecmuası*, October, 1924, p. 524.

"The Government should not possess an attitude of selfishness requesting more and more profits. This must be left to merchants and industrialists. In addition to the fact that there is no government in the world which expropriates profits of its industrialists and merchants, such a government can even not be imagined. Etatism can only be conducted as an economic policy but not as a fiscal and a commercial policy. There is no government in the world supporting etatism for making more money." ¹⁰

As seen, the Chamber of Commerce and Industry had an ideology of etatism of its own. But on the whole, the Chamber was against any monopolistic idea and was an advocate of free trade.¹¹

The alternative of the monopolistic system, proposed by the Chamber, was the banderole system according to which manufacturers bought the banderoles from the government and wrapped them all around the packets of cigarettes. What was important as a revenue in the banderole system was the tax taken from consumption. They argued that either in the monopoly or in the banderole system some taxes such as tithe in production, customs duties on imports and land tax were always there.¹²

In many of the documents published by the Chamber

¹⁰.A.H. BAŞAR, 'Tütünde Inhisarı Nasıl Müdafaa Ediyorlar?', *İstanbul Ticaret Sanayi Odası Mecmuası*, November, 1924, p. 574.

¹¹.İSTANBUL TİCARET VE SANAYİ ODASI, *Bandrolun Mali ve İktisadi Faydaları*, İstanbul, Teşrin sani 1340 (1924),Yeni Matbaa,(in Ottoman script),p. 28.

¹².Ibid p. 69.

concerning this issue, the emphasis was on the critique of the monopolistic idea and practises rather than the discussion of the banderole system. Nevertheless some examples from countries using the banderole system and their success were mentioned emphasizing the success of it. It was argued that if the countries using the banderole system didn't purchase tobacco from countries such as Turkey, it would be impossible to promote tobacco production all over the world. The emphasis in the Journal of Istanbul Chamber of Commerce and Industry was that it was the banderole system that had been motivating international tobacco production. According to the Journal this fact reflected the effectiveness of the banderole system.¹³ From researches conducted by foreign countries on this issue one can clearly observe that the Chamber seriously examined the foreign examples even considering the historical circumstances of these countries to some extent.

In addition to the positive examples given in the Journal from all over the world supporting the banderole system, it was emphasized that Turkey should make it different even if all the countries were involved in monopoly. In fact, the writers of the Chamber were, to some extent, aware of the specific positions of different countries. What they proposed was that the choice of which system had to be installed in a country could be determined

¹³.Ibid p. 32.

by its specific conditions. This argument was strengthened by pointing out the essential character of tobacco production for Turkish economy. Moreover, the Journal mentioned that it was also the specificity of our country that Turkey had to produce the best quality of tobacco as the significance of tobacco in the economy was considered.¹⁴

In the opinion of the Istanbul Chamber of Commerce and Industry, the exercise of monopoly only in tobacco production constituted a contradiction. In order to reveal this contradiction, it was questioned why other production activities such as grain were not monopolized.¹⁵

Moreover, the concept of monopoly was also conceived as against our traditions. In other words: "It is difficult to accept monopolistic idea and practises in our country where the nation have got accustomed to working freely."¹⁶

According to the Istanbul Chamber of Commerce and Industry, the Regie was responsible for the ignorance of high quality tobacco production. As a result of monopoly tobacco was considered only as a raw material. For these reasons the Journal accused the Regie for being an obstacle to enhance tobacco production.¹⁷

The export merchants were opposing the Regie as well.

¹⁴.Ibid p. 71.

¹⁵.Ibid p. 39.

¹⁶.Ibid p. 40.

¹⁷.Ibid p. 30.

It was possible for the company to lower the export prices of tobacco since its monopolistic position would enable it to export the best kind of tobacco from a wide range of cheaply collected products. Unquestionably this privilege had created an unjust rivalry and became a persistent complaint of the Ottoman and Turkish merchants.¹⁸

As for the Chamber, the tobacco monopoly was also the reason for the underdevelopment of the national industry. They strongly criticized the law concerning the ban on the establishment of factories operating in the domestic market. Only factories involved in export were permitted. On this point it was argued that an industry neglecting the domestic market could not survive since the stability of foreign markets could not be guaranteed in the long run.¹⁹

It is noteworthy to point out that the communities supporting the monopolistic practises were people affiliated with the companies who applied for obtaining a monopoly. In addition to those some newspapers such as *Cumhuriyet* were also advocates of monopoly.²⁰ For the supporters of monopoly there were three points which were of significance. First of all, the state should support monopolistic methods and practises. Secondly, it had to be the duty of the state to prohibit smuggling and not that of a monopoly as it was in

¹⁸.Ibid p. 35.

¹⁹.Ibid p. 37.

²⁰.Ibid pp. 72-73.

the case of Regie. Finally the monopolistic privileges of the tobacco manufactures had to be granted to private firms.²¹ Apart from the second point which considers the state as an only protective institution against smuggling, there were no new ideas in these arguments as put by the Chamber.

The critical point on which the advocates of the monopoly stood was the fact that monopolies constituted the largest revenue source for the government. This thesis was strongly criticized by the authors of the Chamber. According to them, monopolies everywhere had obtained the most tremendous profit so that -like the zero sum game theory in economics- it was not reasonable to think that the government can ever obtain the most amount of revenue in a monopolistic system.²² This thesis was also supported by the concrete example, by the comparison of France and Great Britain. It was stated that Britain obtained five times more revenue than that of "monopolistic" France although their total productions were approximately the same. Also pointed out was lower price and higher quality of British cigarettes as compared to french ones.²³

One of the aspects of the monopolistic practises which the Chamber focused on in its critics was the incentive of

²¹.Ibid p. 75.

²².Ibid p. 81.

²³.Ibid p. 85.

monopolies for smuggling. Smuggling in tobacco had hitherto been a major issue in the Ottoman Empire and in the young Turkish Republic. In the opinion of the Chamber of Commerce and Industry, smuggling was the most persuasive indicator of the inefficiency of the monopolistic system. As a matter of fact, the problem of smuggling had coexisted with the tobacco monopoly and could be considered as a by-product of it. Actually, it was possible to observe this phenomenon throughout the history of the tobacco monopoly. Smuggling was always there. The fact that Regie recruited more people over the years indicates how illegal activity had increased. As 3600 surveillance troops in 1887 enlarged to 4600 in 1890, 5900 in 1895 and 6700 in 1897 shows the situation.²⁴

Until 1908 the Ottoman Government was unwilling to help the Regie to any great extent. The Governments never wished the company to be more powerful and they always had to consider the hostile attitude of the people towards the Regie. In spite of the complaints made by the Regie to stop smuggling, the surveillance troops were neutralized by the armed populace. Furthermore; in 1895, the Government decided to disarm the surveillance forces of the Regie.²⁵

Smuggling was absolutely a common response to the company. Smugglers were from all levels of Ottoman society. Among them were government officials, army personnel and

²⁴.D. QUATAERT, (1983).p. 21.

²⁵.Ibid p. 33.

tobacco producers. The financial necessity seems to be the major incentive of smuggling. As Quataert argues:

"Since the Ottoman regime paid its civilian military and personnel on an infrequent, irregular basis, with salaries often in arrears, the smugglers were for the most part soldiers who obtain in this way some profits that compensate for the nonpayment of their salary. Some officials may have been moved by motives which were not primarily financial and they opposed the Regie out of a sense of loyalty to the state."²⁶

In fact, the position of the state was somewhat contradictory. On the one hand, the corporation with the Regie was causing the loss of support of its own subjects. On the other hand, official indulgence of smuggling generated some risks. First of all, this was encouraging banditry and disorder which attenuated the authority of the state. Secondly, the role of the state as the repository and the guardian of the law was undermining its legitimacy.²⁷

The opinion of the Chamber of Commerce and Industry about smuggling was related to the general attitude towards monopoly. Any monopoly was considered to be an obstacle against free trade. Since a market economy could only be accompanied with free trade, monopolies were also against market mechanisms. Therefore, in the process of preventing smuggling, monopolies were at the same time distorting free competition which resulted in an exertion of pressure over

²⁶.Ibid p. 23.

²⁷.Ibid p. 38.

the producers and merchants.²⁸

The Regie due to its monopolistic position was able to determine the price of cigarettes in the market. The worst cigarettes could be sold at any price the Regie determined which in turn decreased the quality of cigarettes. This situation, of course, was motivating smuggling. Through smuggling, it was quite possible to find cheaper cigarettes of better quality on the market place.²⁹

According to the Chamber of Commerce and Industry, by 1924, 4 million kilograms of the approximately 10 million kilograms total production only were produced by the monopoly, the rest being produced illegally.³⁰ In contrast to the Chamber the Ministry of Finance was blaming the banderole system for laying the ground for smuggling. The Chamber of Commerce and Industry strongly criticized this conviction by presenting the examples of France, Germany and Poland which were applying "monopolistic" privileges. They were insisting on the argument that these countries were also experiencing the same problems arising from monopolistic practises, as was the case in Turkey.³¹

The proposal of the Chamber of Commerce and Industry to suppress smuggling was to inaugurate competition in tobacco

²⁸. *Bandrolun Mali ve İktisadi Faydaları*, p. 28.

²⁹. *Ibid* p. 29.

³⁰. *Ibid* p. 112.

³¹. *Ibid* p. 118.

production. According to this proposal, competition would determine the optimal price with delicious taste of cigarettes leading to an increase in the aggregate production.³²

The strong demand of the merchants for abolishing the tobacco monopoly was welcomed by the new government of the young Republic. At a first glance, the merchants had all the signs of immediate abolishment of the Regie. However, the speculation that the Regie administration went to Ankara in 1923 to sign an entente for the continuation of its privileges had triggered the opposition in and out of the National Assembly. Having been squeezed by the opposition, the Republican Party founded a commission on several methods by which the Regie should have to be replaced.³³ In another article in the journal of the Chamber of Commerce and Industry, the uncertain attitude of the government which was, nonetheless, inclining towards monopoly was emphasized. However, soon after the abolishment of the company in 1925 (the abolishment of the Regie was formerly accepted in the Izmir Economic Congress), it was understood that the government had not the intention to extract monopolistic system in tobacco production. The article accused the

³².Ibid p. 127.

³³. 'Ayın İktisadi Hareketlerine bir Nazar: Reji', *Istanbul Ticaret ve Sanayi Odası Mecmuası*, August, 1924, p. 417.

government for being an advocate of monopoly.³⁴ In February 26, 1925 an article about a temporary foundation called the "Tütün Idare-i Muvakkatesi" was passed in the national Assembly.³⁵ With this law the government itself began to establish a tobacco monopoly to purchase and to manufacture tobacco for domestic consumption. Surprisingly yet the export of tobacco was still in the hands of foreign firms. The largest of these was, the French firm Tabacs d'Orient et d'Outre Mer, The Belgian firm Fumaro, and⁶ the Dutch firms Commerce des tabacs Turcs and Tabacus respectively.³⁶ Although this new situation changed slightly in favor of the cultivators as compared to the previous era before the dissolution of the Regie, the merchants couldn't benefit from this situation since power of foreign capital became an obstacle to obtain larger share of the aggregate commercial revenue.

Contrary to the complaints against monopolistic system by the merchants, the governments in the 1920s gradually adopted resolutions consolidating monopolies. Whether the

³⁴.A.H. BAŞAR, 'Tütün ve Reji Meselesi', *Istanbul Ticaret ve Sanayi Odası Mecmuası*, October, 1924, p. 525; also see HUSNU HÜSEYİN, 'Reji Meselesinde Ticaret Odasının Diğer Ticaret Odalarına Müracaatı', *Istanbul Ticaret ve Sanayi Odası Mecmuası*, October, 1924, p. 541.

³⁵.T.C.SİCİLLİ KAVANIN,,26 Subat 1341(1925) tarih ve 558 sayılı "Tütün Idare-i Muvakkatesi ve Sigara kagıdı Inhisarı Hakkında Kanun".

³⁶.C. KEYDER, *The Definition of a Peripheral Economy: Turkey 1923-1929*, Cambridge, 1981, p. 95.

internal socio-economic conditions compelled this application or not this was not the demand of the merchants: on the contrary it was what they disapproved.



CHAPTER 8
THE ISTANBUL CHAMBER OF COMMERCE AND INDUSTRY ON
THE ENCOURAGEMENT OF THE INDUSTRY

It is simplistic to believe that there had never existed an economic program in general and an "industrial" perspective in particular in the Ottoman Empire. By 1909, the Ministry of Commerce and Construction had been already aware of the need for the development of domestic industry and pointed out the significance of industrial development.¹

¹.Here is a formulation of the Ministry of Commerce in 1909: "Her memleketin servet ve saadeti ve sanaiyisinin derece-i terakkisi ile mütenasib olması tabii olup, anasır-ı salise-i mezkurece ve alel husus sanayice ileri giden hükümetler kuvvet ve satvet-i milliyece teali edegelmislerdir. Bunun için milel-i garbiyeye yalnız serveti umumiyelerinin tezayidine degil, beka ve mevcudiyetlerinin dahi teminine hizmet için memleketleri sanayinin terakkiyat ve ihtiraat-ı fenniye ile yevm-en fe-yevma tekamül ve terakkisi hususunu gaye-i amal ittihaz ile erbab-i sanayiye bir çok tesvikat icra ve müseadat ve teshilat bahs ve iraesinden hali kalmamışlardır.

Memaliki Osmaniyenin Avrupa Hükümeti derecesinde ileri gidememesinin esbabını esbab-ı saire ile beraber sanayiin fikdanında ve bu sebeble her husuta avrupa sanayii mamulatına arz-ı ihtiyac ve iftikar etmesinde aramak icap eder.

Memleketimizde Mesrutiyetin tesisini müteakip serveti umumiyyenin tezayidi ve binaberin ümran ve saadet ve erfah ve mükennetin temini istihzarı için lüzum ve ehemmiyeti muhtaç-ı arz ve izah olmayan sanayinin terakkisine mesaiy-i cedide sarfı lazımeden bulunmuştur.

The problem of encouraging domestic industry was elaborated before the Republican era. By 1913, the famous decree called "The Encouragement of Industry" was laid down by the Union and Progress. This decree was planned to accelerate the national industrialization through a significant support by the state. However, in addition to the internal conflicts and separatist movements of the time, the politico-economic world conjuncture became an obstacle for the realization of this plan. The scope of the 1913 law was so limited that there were many entrepreneurs who didn't even hear about the existence of such a law, especially in the remote areas of the country.²

The War of Independence ended with the formation of a nation-state in Turkey. This was the most determining characteristic of the early Republican era. Turkish nationalism was the major ideology of the time. To gain a thorough understanding of the Law for the Encouragement of Industry one should consider it within this context. For example, the Article dealing with the employment of Turkish citizens and restrictions imposed on the admission of

Bu maksadı temin için ise, erbab-ı sanayiye Avrupa mamûlat ve masnuatına karşı rekabetle idameyi mevcudiyet ve terakkilerini teminen, bazı müsaadat ve muafiyet itası derece-i vücupta görülmüştür."Ticaret ve Nafia Nezareti, Sanayinin Terakkisi Hakkında Kanun Layihası ile Esbab-ı Mucibesi, İstanbul, Matbaa-ı Amire, 1325.] Quoted by A.G. ÖKÇÜN, "Tevhiki Sanayi Kanun-u Muvakkatı, 1913", *Ankara Üniversitesi Siyasal Bilgiler Fakültesi Dergisi*, V30, December 1975, p. 25.

².A.G. ÖKÇÜN, *Osmanlı Sanayii*, İstanbul, 1970, p. 18.

foreign labor to the *encouraged* enterprises can be considered within the prevailing nationalist ideology.³ However, the attitude towards foreign capital seemed to be in contradiction with the general discourse. It was impossible to see strict restrictions on foreign capital inflow. Up to the world economic crisis of 1929, foreign capital was expected to invest in Turkey and, to some extent, this was realized but, with the crises the situation changed deeply. Nevertheless as Tezel argues:

"Despite the restrictive conditions, foreign capital investments in Turkey increased immensely until 1930; especially after the impetus triggered by the Law for the Encouragement of Industry."⁴

The slowdown of foreign capital inflow was not caused by a reactionary attitude of the Turkish state policies towards foreign capital. On the contrary, "the Government, Ministries and municipalities had incorporated with foreign capital. In the joint stock companies the majority of the capital usually belonged to foreign capital. In such companies there were many bureaucrats and party members."⁵ The conjectural disintegration of the world economy caused

³.Z.Y. HERSCHLAG, *Turkey, the Challenge of Growth*, Netherlands, 1968, p. 53.

⁴.Y.S. TEZEL, *Cumhuriyet Döneminin İktisadi Tarihi*, Ankara, 1986.p. 169.

⁵.A.G. ÖKÇÜN, *1920-1930 Yılları Arasında Kurulan Türk Anonim Şirketlerinde Yabancı Sermaye*, Ankara, 1971, pp. 153-159.

by the Great Depression of 1929 put an end to this relation for some time.

At the izmir Economic Congress it was claimed that a new law concerning the encouragement of industry should be established. With the influence of the "national" bourgeoisie, a law called 'The Encouragement of Industry', too, was laid down in 1927. The content of this latter law was more beneficial to the entrepreneurs as compared to the previous law of 1913. Before concentrating on the opinions of the Istanbul Chamber of Commerce and Industry on this law, it is necessary to summarize the law in the following nine articles:

- 1) Establishments approved by the Government and recommended by the Ministry of Commerce will be granted land free of charge up to 10 hectares. If need be, land may be expropriated for this purpose by a special law, or compulsorily purchased from another authority, e.g., a municipality.
- 2) Decrees may be issued to exempt enterprises from telegraph or telephone charges on lines between various buildings of the enterprise, or between them and the outside world.
- 3) Installation of these lines as well as of motor power throughout State areas will be free of charge.
- 4) The enterprises, including buildings and land, will be exempt from the following taxes: a) immovable property tax; b) land tax; c) profit tax; d) surtaxes on all previous taxes due to province and municipalities; e) supplementary personnel tax; f) license fees due to municipalities for construction, steam-engines, motors and steels.
- 5) Bonds and securities of companies established for industrial entrepreneurship will be free from stamp duties.
- 6) Materials needed for the construction of the enterprises, and accordingly specified, will attract no customs duties in so far as they are unobtainable in the country, or can not be produced locally on an adequate scale. Such machinery, equipment and building materials will also be granted a reduction of 30 % on

railway transport and shipping. The reduction may also be applied to other products and materials by special Government decree.

7) By a special Government decision the industrial enterprise may be granted a subsidy of up to 10 % of the value of its annual output.

8) The Government may, upon the recommendation of the Ministry of Commerce, issue permits for reducing the price of salt, alcohol and explosive materials, or may grant premiums.

9) Government institutions, municipalities, companies and enterprises benefiting from the law are bound to purchase the products of the encouraged enterprises, if the local quality and quantity are adequate, rather than foreign products, even if the price of the local product is up to 10 % higher." ⁶

As seen above, the privileges and concessions can be summarized in three major groups. The first group includes privileges that provided decrease in the cost of production and investment. These privileges were also found in the previous law of 1913. The second group consisted of concessions that induced an income distribution in favor of the entrepreneurs via exemptions from several taxes, etc. The third group can be characterized as privileges in the form of granting local monopolies to some entrepreneurs.

As for the law, the privileged companies (like monopolies) could not benefit from the exemptions and concessions (excluding the mining companies). However, foreign entrepreneurs who promised to build factories in order to produce commodities that had not been domestically produced or who offered to produce new kinds of raw

⁶. *Teşviki Sanayi Kanunu* (In Ottoman Script), T.C. Sicilli Kavanin, V3, 1927, pp. 730-733, and Z.Y. HERSCHLAG, *Turkey, the Challenge of Growth*, Netherlands, 1968, pp. 53-54.

materials could benefit from all the concessions and exemptions of the law conditional on a 500,000 Turkish Liras minimum capital requirement.

This law was not specific to Turkey since at the time, there were several similar laws for encouragement of domestic industries which were laid down in Rumania, Hungary, Bulgaria, Iran and Greece. Before the implementation of the law, the Turkish Government investigated these laws which were thought to be examples for the Turkish law. At the time it was possible to see some articles in the Journal of Istanbul Chamber of Commerce and Industry on the experiences of the neighboring countries in the implementation of these laws.⁷

The law of 1927 defined a factory as "an establishment which changes the quality of raw materials or semi-completed materials partially or completely or that which changes the form of this material on a large scale". In other words, the law considers factories as plants transforming raw materials or already existing commodities into new commodities.⁸ The law also classified factories in four different categories and only the first category could enjoy all the facilities and concessions granted by the law. The three other categories were granted only some of the

⁷.For such an article see 'Iran'da Teşviki Sanayi Kanunu', *Istanbul Ticaret ve Sanayi Odası Mecmuası*, May 1925, p. 914.

⁸. *Teşviki Sanayi Kanunu* (In Ottoman Script), T.C.Sicilli Kavanin, V3, 1927, p. 731.

privileges and concessions. These categories were precisely defined in the following way:"The *first* category included enterprises with at least 10 HP motors, on the average, and 1,500 work-days annually. The *second* category covered enterprises less than 10 HP motors, but at least 1,500 work-days in a year; or with no motor power but more than 10 daily workers. The *third* category consisted of enterprises with less than 10 HP motors but more than 750 work-days annually. The *fourth* and last category covered all those enterprises which employed several workers assembled in the same building, working manually or with mechanical tools, and employed in weaving, embroidery, yarn, tricotage, carpet making or similar works.⁹ In the previous law of 1913, only 5 HP motors and 3 workers were accepted as a factory and this criteria was generally accepted as an indicator of industrial development in Turkey from 1913 until 1927.¹⁰

In a special report prepared by the Industrial Group of the Istanbul Chamber of Commerce and Industry in 1928, it was suggested that the aim of the Law for the Encouragement

⁹.Ibid p. 731.

¹⁰.İSTANBUL TİCARET VE SANAYİ ODASI, *Istanbul Ticaret ve Sanayi Odası 1928 Yılı Mükerreratı*, İstanbul, 1928, Cumhuriyet Matbaası, (in Ottoman script) 'Tevhiki Sanayi Hakkında (1/1095) Numaralı Kanun Layihası ve Ticaret Bütçe Encümenleri Mazbataları', p. 8. It was defined in 1913 as "mevadi iptidaiyeyi tabiiyeyi yahut nim mamul mevadin heyeti asliyesinin sekli ahire tebdil edildiği yerler", TEKELİ İ. S. İLKİN, *1929 Dünya Buhranında Türkiye'nin İktisadi Politika Arayışları*, Ankara, 1977, p. 65.

of Industry shouldn't be merely to increase the number of new factories but also to establish and develop scientific and economically profitable ones.¹¹ In the report it was argued that large scale factories were more efficient than the smaller ones.¹² Based on these arguments the Industrial Group of the Chamber put a special emphasis on the role of large scale establishments in the economy. This emphasis on large scale factories was also reflected into the proposal presented by the Chamber to the government.¹³ According to the report the wide range of concessions granted to large-scale factories would act as a direct incentive on small-scale factories to grow faster in order to benefit from these concessions.¹⁴ On the other hand, in the 1930 Congress of the Chamber of Commerce and Industry this attitude seemed to be changed as reflected in the general draft decided by the Congress. Contrary to the emphasis on the previous support of large scale factories in 1928, the Congress complained about the ignorance of small scale enterprises. It was argued that 90 % of the existing

¹¹. *Istanbul Ticaret ve Sanayi Odası 1928 Yılı Mükerreratı* (1928), 'Milli Sanayimizin Himayesi Hakkında Kongre Sanayi Encümeni Raporu' (In Ottoman Script), p. 4

¹². *Istanbul Ticaret ve Sanayi Odası 1928 Yılı Mükerreratı*, 'Umumi Mütalaa', p. 19.

¹³. In fact the law also differentiated the enterprises with respect to their scales which meant more conventions for the larger enterprises. For this issue see I. TEKELİ & S. İLKİN (1977), p. 65.

¹⁴. 'Teşviki Sanayi Hakkında (1/1095) Numaralı Kanun Layihası ve Ticaret Bütçe Encümenleri Mazbataları', p. 9.

enterprises were small scale and that the law should also cover them.¹⁵ This argument was supported also by the example of the similar Bulgarian law for the Encouragement of the Industry.

Although the Law for the Encouragement of Industry provided several facilities, concessions and tax exemptions for the entrepreneurs, these were not considered to be sufficient. They requested more than the already granted ones. In a decision of the Chamber of Commerce and Industry some 16 points were laid down 12 of which seem to me of significance. As a summary these were:

- 1) Granting of buildings to the entrepreneurs.
- 2) The import of some additional foreign materials could be required after the declaration of the lists of import goods. Hence the state should reconsider the general list of the goods which were exempted from customs duties.
- 3) Not only factories but also the affiliated shops, storing places etc. should benefit from the concessions, facilities and exemptions.
- 4) All the bureaucratic requirements should be minimized.
- 5) An additional and special tariff on transportation should be granted.

¹⁵. İSTANBUL TİCARET VE SANAYİ ODASI, *İstanbul Ticaret ve Sanayi Odası 1930 Senesi Kongre Talimatnamesi*, İstanbul, 1930, p. 20. Even for the Law for the Encouragement of Industry of 1913 a similar critique was made by the Chamber. For this critique see '1923 Senesi Hadisatı İktisadiyesine Umumi bir Nazar', *İstanbul Ticaret ve Sanayi Odası Mecmuası*, January 1924, p. 165.

6) Besides the direct concessions as given in the first point, new regulations in the bureaucratic procedures of building construction should be enforced.

7) The taxes paid by the enterprises on the workers' account and for the personnel of the factories benefiting from the law for the Encouragement of Industry should be exempted.

8) The efficient use of local resources and implementation of facilities for this purpose.

9) The exemption from customs duties on the materials which were supplementary for the previously imported materials, machines etc.

10) Due to the lack of qualified labor in the country three years of working permission for foreign technical personnel should be granted. They also suggested that a Turkish personnel could accompany the foreigners. (This suggestion reminded a similar situation in the Soviet Union in the 1920s).

11) Keeping the workers in their factories during the times of war.

12) Even if some export commodities are manufactured by using raw materials which are not exempted from customs duties these new commodities should also be exempted from customs duties.¹⁶

In addition to the articles mentioned above, the

¹⁶. *Istanbul Ticaret ve Sanayi Odası 1928 Yılı Mükerreratı*, 'Tevsiki Sanayi Kanununa İcab Eden Metalibi Umumiye', p. 3.

merchants also proposed additional benefits for the larger enterprises which was for the sake of large enterprises rather than the smaller ones.

In the report which reflected the general attitude of the industrialists in the Chamber of Commerce and Industry, a periodization was made for the history of the development of industry which was approximately the same made by the Minister of Economy, M. Esat Bozkurt in his introductory speech at the Izmir Economic Congress.¹⁷ This history was divided into three sub-periods. The first period was called "Hükümeti Mutallaka"(Abandoned Government)". In this era, the general tendency of the ruling elite towards the industry was distrustful. As the report says "industry was considered to be a useless activity."¹⁸ Agricultural production was considered to be of higher significance as compared to the industrial production. According to the article, agricultural production of this period was characterized by primitive techniques which in turn caused the productive capacity of the soil to be the only determinant of the total production. As expected, the Chamber of Commerce and Industry condemned this era since nothing had been done for the industry.

¹⁷.A. AFETİNAN, *Izmir İktisat Kongresi*, Türk Tarih Kurumu Yayınları, Ankara, 1982, p. 73. *

¹⁸*.Mutallaka means "divorced" in fact, but I translated it as "abandoned" for the context).

¹⁹.*Istanbul Ticaret ve Sanayi Odası 1928 Yılı Mükerreratı*, 'Milli Sanayimizin Himayesi', p. 3.

The second period called "Hükümeti Meşrutîye" (Constitutional Government) was not criticized as much. The Chamber considers this era to be progressive for the industrial development. However the long wars and the need for national defense did become an obstacle for enhancing the establishment of industrial plants. Especially the absence of labor force was argued to be the major reason of this since the most productive labor force was employed in the war. Also considered in the context of this period was the Encouragement of Industry of 1913. This law was seen as an important step towards industrialization but the problems arising from persistent wars did not enable the realization of the law. The report also notes the dissolution of the existing industry in this period due to the inflow of the European commodities.²⁰

The final period is the "Hükümeti Cumhuriye" (The Republican Government) which the Chamber of Commerce and Industry appreciates. In this period, the number of factories increased from 189 to 281 in three years. The increase in this figure as compared to the previous period triples when the number of new factories emerging with the help of the law are included.

In the articles on the encouragement of national industry published by the Chamber of Commerce and Industry, it is possible to find arguments on why the industrial de-

²⁰.Ibid p. 2.

velopment had not taken place considerably up to then. The hypothesized reasons given in these articles were the lack of know-how, experience and capital. In addition to these, it was said that our people had not been accustomed to accumulating money as it did in the case of France. So, these reasons seemed to lead to the absence of harmony between the culture of our nation and that of entrepreneurship. This consequence was supported by noting that the Turks had hitherto no rich families".²¹

What we see throughout the whole pages is the explanation of why industry is useful at all. Although these articles were written in a atmosphere of controversy between the industrialists and the merchants, it is interesting to see how industry was legitimized.

For the theoretical legitimacy of the industry, the wealth of nations was divided into three categories. The first category is land including mines and forests, the second and the third categories include the capital and labor, respectively. It was argued that the first one was dependent on the others and especially on capital.

The legitimacy goes in the following way: The 'capital' offers employment to people and hence enables them to earn their living. Moreover the 'capital' also provides the substructure for the military defence of the country and

²¹. 'Tevviki Sanayi Hakkında (1/1095) Numaralı Kanun Layihası ve Ticaret Bütçe Encümenleri Mazbataları', p. 6; 'Umumi Mütalaa', p. 17.

disciplines the ethnical life by preventing the formation of unemployed social groups. It was argued that unemployment was a major factor for social anarchy.

On the other hand, it has been claimed that the "education must be for the production". The article gave an example of a chemistry professor who would have been unemployed if the industrial requirements hadn't been there. Consequently, the dependency of scientific improvements on industrial developments or industrial motives is stressed.²²

These ideas for the development of a national industry were carried out on a line of national protectionism. Once the current gap between the export (160 million Lira) and the import (200 million Lira for that time being) was considered, it is said that this gap is harmful for the nation and the only power that can carry out this mission is the "industry". The other alternative, agriculture, is unable to solve this problem because agriculture in our century is also dependent on industry. These issues brought the discussion of alternative solutions to the agenda. The suggested solution was to protect national industry by stimulating the domestic demand from the national economy. To this end, it was argued that the import of foreign final goods should be restricted and discouraged. To stress the importance of this point the report article gave examples of foreign products which became substitutes for domestic

²². 'Umumi Mütalaa'.p. 28.

counterparts. "Arasit Yağı" was one of the foreign goods which replaced the already existing olive oil in domestic consumption. Other than the points mentioned above, the report also proposes a rise in customs tariffs after the restrictions introduced by the Lausanne Treaty are abolished.

In fact, the Law for Encouragement of Industry included some protective regulations, too. As mentioned above, the ninth article of the law enforces the purchase of domestically produced goods even if the price of these domestic local products was up to 10 % higher as compared to the foreign goods.

However the Istanbul Chamber of Commerce and Industry thought that only techno-economic and bureaucratic regulations could not be sufficient if they were not supported by the "*consciousness* for the purchasing of local products among the people"(my emphasis). For this reason, they proposed the establishment of a permanent working group to deal with propagandistic activities. This necessity was derived from the fact that especially the middle class strata and the intellectuals in big cities had been in favor of a tendency to purchase foreign products. On the other hand, they argued that the masses were eager to benefit from the short term material gains but national ideals had to be promoted

by propagandistic activities.²³

Besides these activities, the report proposed the organization of an exhibition in order to encourage the private initiative. The presentation of prizes to successful entrepreneurs in this exhibition was suggested as a means of incentive and encouragement.²⁴

Among all the articles but especially in the one called "Milli Sanayimizin Himaye ve Tesviki" an interesting attention to agriculture is given. In it, it is possible to observe a general reaction against a tendency similar to that of Adam Smith's theory of comparative advantages. Most of these articles assert the advantages of factories which are based on domestically produced agricultural goods. In other words, an industry oriented opinion towards agriculture was held by the Chamber of Commerce and Industry. Agriculture was considered to have two functions: The supply of raw materials to the domestic industry and the export of the excess raw materials in order to gain foreign currency to purchase materials required for the domestic industry.²⁵

It was also argued that the funds provided by Ziraat Bankası were not sufficient for the credit requirements of

²³. *Istanbul Ticaret ve Sanayi Odası 1928 Yılı Mükerreratı*, "Milli Sanayimizin Himayesi Hakkında Tetkikat", p. 12.

²⁴. *Istanbul Ticaret ve Sanayi Odası 1928 Yılı Mükerreratı*, "Milli Sanayimizin Himayesi Hakkında Kongre Sanayi Encümeni Raporu", p. 13.

²⁵. "Milli Sanayimizin Himaye ve Tesviki", p. 4.

the producers. In order to provide the necessary financial sources for the raw material producers the factory owners demanding their raw materials should support them financially.²⁶

The most interesting point of discussion through the pages of the articles published by the Industrial Group of the Chamber of Commerce and Industry was the competition between the industrial capital and the commercial capital.

Before continuing with this discussion, one has to remember that all around the world it was -and is- possible to see economic and also social contradictions between commercial and industrial capital. These contradictions derive mostly from different positions in the production process. Most of the time commercial capital is dependent on the existing mode of production since by itself it is not able to constitute a mode of production. Commercial capital is not directly concerned with the production area as compared to industrial capital. Industrial capital, on the other hand, should destroy all pre-capitalist forms of production whenever they become an obstacle for the capitalist development. Moreover, the short-term economic horizons of commercial capital could often contradict the long-term perspectives of industrial capital. Such a contradiction seemed to exist in Turkey in the second half of the 1920s.

In the Ottoman Empire, one can clearly observe the

²⁶.Ibid p. 5.

privileged position of the merchants both due to their economic role as the major source of food supply to the cities and due to their involvement in other economic activities which were crucial for the integration to the world economy especially from the beginning of the 19th century onwards. However, especially from the beginning of the 20th century, industrial capital began to emerge with the help of the state protectionism and the encouragement induced by the *National Economy* policies especially in the World War I.

All the arguments mentioned above for the usefulness and the necessity of industry can be considered as an attempt to consolidate the ideological position of industrial capital against the commercial capital. What the industrial bourgeoisie desired was the political and ideological support of the people and above all, of the state, parallel to its economic superiority.

The complaints of the industrialists about the inadequacy of their social and economic status compared to the merchants were supported by the emphasis of their superiority: "We were saying that every factory owner is at the same time a merchant but every merchant can not be an industrialist."²⁷ They consequently argued that an industrialist also has to be engaged in the market place as well as a merchant. Here the essential issue as seen in the

²⁷. 'Umumi Mütalaa', p. 30.

articles was that although the industrialists had at least the same significance as the merchants, the latter had got much more privileges than the industrialists.

According to the article, at least four evidences should be presented representing the unjust position of the industrialists. First of all, the composition of the committee ruling the Chamber of Commerce and Industry could not represent the industrialists since only one of the thirty members of the Chamber was an industrial entrepreneur. What they proposed was that half of the members of the Istanbul Chamber of Commerce and Industry be chosen among the industrial entrepreneurs who should have a factory in Istanbul.

The unequal credit options was the second evidence for the uneven position of the industrialists compared to the merchants. The writer of the article as a representative of the industrialists demanded credit opportunities similar to the ones supplied to the merchants. They accentuated that merchants might obtain credit even from abroad whereas the industrial enterprises couldn't even manage to do it from inside the country.²⁸

Thirdly, they demanded to have a regular member would be an industrial entrepreneur in the commission determining the tariffs.²⁹ Here we clearly observe the class conscious-

²⁸. 'Milli Sanayimizin Himaye ve Tesviki', p. 5.

²⁹. 'Milli Sanayimizin Himayesi Hakkında Kongre Heyeti Umumiye Kararı', (No page given).

ness of the industrialists since they were thrusting a person of the same social stratum for their representation.

Finally, they wanted to obtain financial support from the Treasury for the "Union of Industry", an organization of industrialists, similar to the "Union of Commerce". Here again we observe that the dominant state policies were in favor of the merchants against which the articles contested.³⁰

Another point emphasized in the articles is the lack of credit opportunities. From the general spirit of the articles, it can be understood that they had some troubles with banks. They especially accused "Sanayi ve Maden Bankası" (The Bank of Industry and Mines) for its insufficient support to the industry. It was pointed out that this bank had provided credits mostly to the state owned enterprises. Also proposed by the article was the privatization of the enterprises belonging to "Sanayi ve Maden Bankası"³¹, a problem still discussed in Turkey.

The Chamber of Commerce and Industry posed four demands on this credit problem. The first one is the supply of credits to the industry by another bank called "Emlak ve Eytam Bankası". The second is to establish another bank that could be called "Tevviki Sanayi Bankası" (Bank for Encouragement of Industry) which should specialize in

³⁰. *Istanbul Ticaret ve Sanayi Odası 1928 Yılı Mükerreratı*, 30 imzalı Encümen Raporu', p. 45.

³¹. 'Umumi Mütalaa', p. 27.

these reasons seemed to lead to the absence of harmony between the culture of our nation and that of entrepreneurship. This consequence was supported by noting that the Turks had hitherto no rich families".²¹

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The legitimacy goes in the following way: The 'capital' offers employment to people and hence enables them to earn their living. Moreover the 'capital' also provides the substructure for the military defence of the country and disciplines the ethnical life by preventing the formation of unemployed social groups. It was argued that unemployment was a major factor for social anarchy.

On the other hand, it has been claimed that the

²¹. 'Tevhiki Sanayi Hakkında (1/1095) Numaralı Kanun Layihası ve Ticaret Bütçe Encümenleri Mazbataları', p. 6; 'Umumi Mütalaa', p. 17.

Besides these exemptions, the state is considered to be a source of demand factor for the industry. The arguments on this issue were put within the following logical context. The state should declare the kind materials ordered ahead of time in order to help the private sector to plan its production and to meet the deadline of these state orders. In addition to this, no special use value or requirement of production feature should be required by the state. This was considered to be a guarantee for competition. It also reflects the insufficiency of the private sector as compared to the state sector at the time.³⁶

The history of the emergence of industrialization in Turkey is very interesting and requires further consideration of the role played by the state. The Law for the Encouragement of Industry provided the private initiatives with many facilities and exemptions to improve the industry some of which were mentioned above.

The opinions of the Chamber of Commerce and Industry on the protection of the national industry (namely domestic production) and on foreign capital did not contradict each other. For example, foreign enterprises owning a capital of more than 500,000 TL were also entitled to benefit from the

³⁶. 'Milli Sanayimizin Himayesi Hakkında Kongre Sanayi Encümeni Raporu', p. 8.

law.³⁷ If the scale of the factories is considered, it can be argued that foreign companies, if they had invested, would have enjoyed all the privileges of the law. Here the word "national" merely referred to the geographical location of the industry, but the nationality of the owner of the enterprises was not important except for the Armenians and the Greeks.

The striking point was the contradictions between the merchants and the industrial capital. The state policies could be said to be in favor of the merchants and the majority of the Chamber of Commerce and Industry at the time was consisted of the merchants.

As it is well known, the Law for the Encouragement of Industry was planned to encourage rather the large-scale businesses. In fact, the criteria requiring the 10 HP may not be considered as a preference of large-scale factories even though the Congress of the Chamber complained about this in 1930.

It is noteworthy to see the emphasis placed on the consciousness for the propagandistic activities. The Chamber of Commerce and Industry was well aware that only technocratic and bureaucratic regulations and encouragements

³⁷.K. BORATAV, *Türkiye'de Devletçilik*, 1974, Ankara, Savas Y., p. 88. This attitude is very similar to that of the Izmir Economic Congress. There it was accepted that foreign capital having a fixed capital capacity over 500,000 TL. could be permitted to invest in Turkey. For detailed information on this point see A.G. ÖKÇÜN, *1920-1930 Yılları Arasında Kurulan Türk Anonim Şirketlerinde Yabancı Sermaye*, Ankara, 1971, p. 9.

were not sufficient for the development of the national industry. Its superstructure should also be established. A permanent propaganda committee was planned to be formed and this activity was seriously taken into account.

Indeed the impact of the Law for the Encouragement of Industry of 1927 had been very important for the development of the Turkish industry. The number of enterprises benefiting from the law was of 1261 in 1928, 1589 in 1929 and increased to 1857 in 1930. The newly established ones were 140 in 1927, 157 in 1929 and 106 in 1930.³⁸

A critique of the law is that the net effect of the law on the economy was not to introduce new parameters on the composition and the structure of the industry but rather to improve the marginal profitability of the existing enterprises. According to Keyder, this law, as a state intervention, shouldn't be considered within the framework of being against the peripheral integration of the Turkish economy with the West.³⁹

The change in the world conjuncture and in Turkey from the beginning of 1930 deeply changed all the economic policies. As a consequence of this the Law for the Encouragement of Industry couldn't be applied as planned and desired. Although formulated in the politico-economic atmosphere of the 1920s, it was "put into effect as part of a

³⁸.Y.S. TEZEL,(1986)p. 219.

³⁹.C. KEYDER, *Dünya Ekonomisi İçinde Türkiye (1923-1929)*,Ankara, 1982, p. 182.

larger statist policy in the 1930s".⁴⁰ While the economic and political climate of 1930s was not so much in favor of encouraging the private initiatives, this law always remained important for the Turkish bourgeoisie. As Celal Bayar put it in 1936: "We are keeping the Law for the Encouragement of Industry as a holy grant."⁴¹

⁴⁰.M.M. FINEFROCK. "Laissez-Faire, The 1923 Izmir Economic Congress And Early Turkish Developmental Policy in Political Perspective. *Middle Eastern Studies*, V17, 1981. p. 383.

⁴¹.Ibid p. 250.

CHAPTER 9
"THE HIGH COST OF LIVING" IN THE OPINION
OF THE İSTANBUL MERCHANTS

"The High Cost of Living", namely inflation, became apparently a matter of concern among the different social strata in the Turkish society, mainly from the second half of 1927 onwards.¹ The ICCI was also concerned with the issue. The inflation was elaborated not only because it was a social problem but also it was considered to be a by-product of the current economic policies in a broader context. In that sense, the concern of the ICCI was related to the main economic policies and to the evaluation of the recent economic affairs rather than to a specific issue.

Two articles published by the ICCI on the issue are worth examining. The first one was written by the director of the Chamber, Mehmet Vehbi, in late 1927 and the second one was a report approved by the 1928 annual Conference of the ICCI. Both of them were interested in understanding the causes of "The High Cost of Living" and both articles agree with each other in many of the sources of inflation.

As for the report approved by the Congress there were two kinds of causes of inflation. The first one was subjective and the second one was objective. In other words, it

¹ MEHMET VEHBİ (SARİDAL), "Hayat Pahalılığı ve Sebeplerinin İzahı". *İstanbul Ticaret ve Sanayi Odası Mecmuası*, Eylül, 1927 (In Ottoman Script), p. 749.

was argued that some of the reasons were global and structural whereas some of them had internal sources in Turkey.

One of the important reasons for the inflation was the sharp decline of the value of paper money after the World War I. This phenomenon was elaborated by the two articles related with the inflation issue. However, the reason behind the sharp decline of the Turkish paper money was attributed to two different dynamics in the two abovementioned articles. In the first article published in the 1928 Congress, it was argued that the principal reason was because of the fact that the value of paper money was not determined by the gold standard. The English case for the similar problem was given as an example. The value of the Sterling had increased by three times compared with the pre-war era and this was considered to be normal. According to the article, this normal increase was due to the gold standard. It was argued that in Turkey, however, everybody was suspicious about the value of their money since the Turkish money was tied to the gold standard.² On the other hand, in the article called "The High Cost of Living and the Explanation of Its Reasons" and published By M.Vehbi in 1927 an opposite opinion on the gold standard was asserted. He argued that using the gold standard was not the best choice

².MUMTAZ ERTUGRUL, İSTANBUL TİCARET VE SANAYİ ODASI, "Hayat Pahalılığı Meselesi", *İstanbul Ticaret ve Sanayi Odası 1928 Yılı Mükerreratı*, İstanbul, 1928, Cumhuriyet Matbaası, (in Ottoman script), p. 6.

for Turkey. It would not be efficient if the country was underdeveloped. This opinion was supported by stating that paper money was the end of an evolution which was considered to be positive.³

The second point was the effect of the total decline both in agricultural and industrial production compared to the pre-war conditions. It was argued that both in the world and in Turkey the productive sources were consumed for the military purposes and this led to a decrease in aggregate supply and an increase in aggregate demand. The result had been the rise of prices.⁴

The third point, very similar to the second one, affecting the prices was the destruction of the war on the productive population.⁵ Especially the male population having been used for military purposes decreased in large amounts. This led to a decrease in production and in turn to an increase in the prices of commodities.

The fourth point was the rising costs of transportation

³.MEHMET VEHBİ, 'Hayat Pahalılığı ve Sebeplerinin İzahı',1927, p. 750.

⁴.MUMTAZ ERTUGRUL, 'Hayat Pahalılığı Meselesi',p. 7, and MEHMET VEHBİ, 'Hayat Pahalılığı ve Sebeplerinin İzahı',1927, p. 751.

⁵.Ibid p. 8. This decrease in the population can be seen in the case of Istanbul. Before the World War I, in 1914, its population was 909 978 against 710 286 in 1922 and 500 000 in 1924 and 690 857 in 1927. For these figures see Z. TOPRAK, 'İstanbul'un Nüfusu ve Toplumsal Topografyası', *Toplum ve Ekonomi*, no.3. April 1992. Obviously it can be estimated that the population in the rural areas declined more than the cities.

which were directly reflected to the prices. It was argued that Turkey had one of the most expensive transportation structures.

The fifth factor as a source of inflation was the high insurance costs. This argument was supported by pointing out the fact that insurance costs in Turkey were nearly the highest in the world.⁶ The context in which the argument was elaborated inevitably makes us think over the nationalistic response of the Chamber. At the time of issue, the majority of the insurance companies were still owned by non-Muslims and foreigners. Therefore, it was no surprise that the inflation as a social problem was handled by the Turkish merchants as an opportunity to condemn once more their rivals.

Another factor was the high interest rates. As a consequence of the underdeveloped banking system and other credit mechanisms, the interest rates were so high that the credit seeking people could hardly afford it. According to the report of 1928, the interest rates in many provinces were around 60 %.⁷ Obviously the high costs of the interest rates were translated into higher prices.

According to the report approved by the Congress, one of the most important reasons of the inflation was the high

⁶.MUMTAZ ERTUGRUL, 'Hayat Pahallılığı Meselesi', p. 8.

⁷.Ibid p. 9.

on this credit problem. The first one is the supply of credits to the industry by another bank called "Emlak ve Eytam Bankası". The second is to establish another bank that could be called "Tevviki Sanayi Bankası" (Bank for Encouragement of Industry) which should specialize in supplying financial facilities only to industrial entrepreneurs.³² The third one is to find credits from foreign sources which can be obtained by persuading these sources with the prospects of high profit rates. To put it differently, it was argued that the expectation of high profit rates would attract the attention of foreign capital both into investment and credit supply.³³ Of course, this was thought to be an indirect solution for the problem which was also emphasized in the article but, at the same time, it represents the attitude of the Chamber of Commerce and Industry towards foreign capital.

The final proposal for the solution of the credit problem was mortgaging. Industrialists would use the mortgages for their assets which could supply a credit equal to 70 % of the real value of their assets.³⁴

For the protection of the national industry, the

³². "Milli Sanayimizin Himayesi Hakkında Kongre Sanayi Encümeni Raporu", p. 9.

³³. "Umumi Mütalaa", p. 19.

³⁴. Ibid p. 23.

In the 1927 article on the same issue the director of the ICCI claimed that the salaries of the bureaucrats and the officials had declined which seems to be a contradiction with the subsequent article.

Another factor which was presented as a cause of inflation was the high taxes. It was argued that the War expenses were the reason behind the higher tax burden. It was stated that new additional taxation came to the agenda especially for the urban consumers.¹² However, the report admitted that the Republican Government was collecting less taxes as compared to other countries. The report applauded the government for this treatment.¹³

The report also argued that the high customs duties led to inflation. This was supported by the argument that the high customs duties were reflected to the import prices. The fact that low customs duties were in the interest of the merchants was ideologically supported by the report. Also criticized were the continuous changes of the laws concerning the customs duties. The report was against bureaucratizing of any kind.

The article of 1927 elaborated the effect of the customs duties in detail. According to the article, the increase in the customs duties was due to the protectionist economic policies gradually becoming dominant throughout the

¹².MEHMET VEHBİ, 'Hayat Pahalılığı ve Sebeplerinin İzahı', 1927, p. 752.

¹³.MUMTAZ ERTUGRUL, 'Hayat Pahalılığı Meselesi', p. 12.

world towards the 1930s. Countries began to advocate the consumption of domestic products which was against the logic of free trade. The collapse of the empires and the formation of new nation states also accelerated the outbreak of commodity transactions.¹⁴ I tried to indicate in the first chapter the dualist character of the economic policies in the 1920s in the world. Nevertheless, the growing tendency was obviously not free trade but rather the opposite. The article mentioned above confirmed the situation for the Turkish case.

The final factor of inflationary measures was about the Istanbul seaport. It was argued that this could be seen as a minor effect but it was not indeed. The fact that the prices of products coming from the USA to the seaport were most of the time lower than the one from the seaport to the city was a striking example.¹⁵

In addition to these objective effects, there were also subjective ones. The first one, as the report argued, was speculative business. These illegal activities were sometimes effective on the price increases and the non-Muslims and the foreigners were accused of being responsible

¹⁴."Gümrük tarifelerinin pağırlığı ve yüksekliği, her memlekette mevcut olan neo-merkantilizm, her memleketin kendi ihtiyaçlarını kendi malıyla temin etmek fikirleri, ve nihayet dünyada harpten evvelki imparatorluklar yerine bugün daha küçük hududlarının kaim olması, servetin tedâvülünü tehdit eden esbabdandır."MEHMET VEHBİ, 'Hayat Pahalılığı ve Sebeplerinin İzahı', 1927, p. 751.

¹⁵.MUMTAZ ERTUGRUL, 'Hayat Pahalılığı Meselesi'.p. 13.

for these speculative businesses.¹⁶ This attitude seems to be related with more of the nationalistic ideology rather than the reality since it was clear that many Turks as well were engaged in such activities especially by using governmental connections. Moreover, as stated in the article of 1927, one of the factors affecting the price increases was attributed to the Turkish intermediaries especially in the cities who had been state officials before or had recently come from the villages.¹⁷

The second subjective factor was granting monopolistic privileges in production and trading of several commodities. In the previous chapter I have indicated in detail the attitude of the merchants towards monopolistic practises. They were without doubt against monopoly.¹⁸ The effect of monopolies on inflation was absolutely negative since monopolies could easily determine the prices as they wished contrary to the perfectly competitive firms.

¹⁶."Bilhassa memleketimize yerlesmiş ve memleketin hayatı umumiyesiyle alakadar birkac ecnebi şirket vardır ki bugünkü hayat pahalılığının başlıca saiklerinden biridir."Ibid p. 14.

¹⁷.MEHMET VEHBI, 'Hayat Pahalılığı ve Sebeplerinin İzahı'.1927, p. 752.

¹⁸.It is interesting to note here that the report, written in 1928, accepted the necessity of monopolies to some extent. Nevertheless, this acceptance perhaps was not in principle but because of their insufficient power to fight against this de facto reality. "Gerci bizim memleketimizde inhisar sistemleri mahdud bir noktai nazara göre zaruridir. Ancak bunların daha fazla tesirine meydan verilmemesi sayanı tavsiyedir.",MUMTAZ ERTUGRUL, 'Hayat Pahalılığı Meselesi',p. 14.

of being against the peripheral integration of the Turkish economy with the West.³⁹

The change in the world conjuncture and in Turkey from the beginning of 1930 deeply changed all the economic policies. As a consequence of this the Law for the Encouragement of Industry couldn't be applied as planned and desired. Although formulated in the politico-economic atmosphere of the 1920s, it was "put into effect as part of a larger statist policy in the 1930s".⁴⁰ While the economic and political climate of 1930s was not so much in favor of encouraging the private initiatives, this law always remained important for the Turkish bourgeoisie. As Celal Bayar put it in 1936: "We are keeping the Law for the Encouragement of Industry as a holy grant."⁴¹

³⁹.C. KEYDER, *Dünya Ekonomisi İçinde Türkiye (1923-1929)*, Ankara, 1982, p. 182.

⁴⁰.M.M. FINEFROCK, "Laissez-Faire, The 1923 Izmir Economic Congress And Early Turkish Developmental Policy in Political Perspective, *Middle Eastern Studies*, V17, 1981, p. 383.

⁴¹.Ibid p. 250.

namely the entrepreneurs and not its own profits.²⁰

²⁰.MEHMET VEHBİ, 'Hayat Pahalılığı ve Sebeplerinin İzahı', 1927, p. 752.

CONCLUSION

The economic and political atmosphere both in Turkey and in the world had rarely become so advantageous for the mercantile strata as it was in the 1920s. Although the national economies were inclining towards protectionism and state interventionism by the end of the decade, the dominant economic policies were the persistence of the 'laissez-faire'. The economic integration reached such a level that the Turkish economy also became quite sensitive to the changes in the macro-economic trends in the world economy. In this conjecture, it was not surprising that the merchants had the most privileged position in the national economy. Having said this, it was unlikely to expect statist policies in Turkey during that era.

In the 1920s, the main struggle of the merchants was to replace the non-Muslim intermediaries. This was due to the migration of large number of non-Muslim Ottomans and foreigners from Turkey. A considerable number of this population had hitherto been engaged in trade and manufacture in the Ottoman Empire. Although the emigration of a massive population created a slowdown of economic activities, the Turkish merchants and entrepreneurs rapidly managed to replace them. Since the main economic policies for the most part remained the same in this era the replacement process in terms of economic activities was easily realized. Foreign capital inflow, for example,

From its inauguration in 1882 onwards, the Chamber of Commerce and industry became a semi-official organization. Throughout its history, a significant contradiction existed: on the one hand, the merchants were, by and large, advocates of free trade and against state intervention; on the other hand they couldn't stand on their feet without state assistance. Especially after the foundation of the Republic, the national merchants insisted upon strengthening their semi-official status in order to "defend the national profits against the anti-national elements". The legislative regulations made in 1925 were a product of such an aim.

Until 1923 the majority of the members of the Chamber were Greeks and Armenians. The power of the non-Muslim subjects in the economic life of the Ottoman Empire did not constitute a contradiction for the Ottoman governing elite until the emergence of nationalist movements in the Balkans. This was due to the fact that an empire, contrary to a nation-state, was by definition multi-national and multi-ethnic entities including multi-cultural characteristics. However, the reflection of the nationalist movement among the Istanbul merchants changed this attitude. The number of the non-Muslims in the Chamber from the 1923 onwards sharply declined. In that sense, the history of the Chamber of Commerce and Industry provided a concrete case to observe this evolution.

One of the most important successes of the merchants was the Izmir Economic Congress. The results of the Congress

reflected mainly the vistas of the *Turkish National Trade Association*. In addition to being the most highly organized group, the two other groups which participated to the Congress, workers and industrialists, were also organized by the Association. Many decisions such as the abolishing of the monopolies reflected the liberal ideology of the Istanbul merchants.

In fact, the decision to organize an economic congress in Izmir by the government followed the attempt of the Istanbul merchants to conduct a similar congress. Their main aim was to show a reaction to the granting of monopolistic privileges in the export and import trade to a company called the Turkish National Export and Import Joint-Stock Company. Although it seems that the taking of the initiative of organizing the Congress was against the attempt of the Istanbul merchants, the result of the Congress, as I mentioned, was a compromise between them.

Moreover, the Izmir Economic Congress also had political importance for the new regime. Firstly, political messages were carried out by the delegates from all over the country. Secondly, the economic policies were presented to the outside world by the "liberal" declarations of the Congress which was held during the interval between the two sessions of the Lausanne Peace Conference.

In many documents of the Chamber, but especially in the 1924 Report, one can clearly see the attitude of the merchants against any state intervention into the economy.

This was partially due to the belief in the liberal ideology. Besides, they had an untrustworthy sentiment to the Ankara government since they were strongly against to use bureaucratic privileges in economic activities. In fact, they were supporters of the new Republican state unless their profits were threatened. It is no surprise to notice that when some bureaucrats began to engage in business, the report strongly criticized this situation.

The attitude of the Chamber towards the monopolies constituted a very good example for understanding the liberal world view of the merchants. Their objection to the monopolistic practises rested on the critique of the state policies. According to them, states should operate with an economic rather than a financial rationality. It was argued that monopolies were the products of short-term policies induced by the financial necessities of the state.

In fact, the existence of the monopolies was against the economic benefits of the majority of the merchants. However, while criticizing they were combining the social problems deriving from monopolistic practises as in the case of tobacco smuggling. In their opinion, smuggling could be avoided by the invisible hand of the free market.

Another strong belief of the merchants and the industrialists together with the bureaucracy of the time was the important mission to be played by foreign capital. Until the beginning of the Great depression, this expectation, to some extent, was realized. In the 1920s, the foreign capital

inflow into Turkey was more than the previous era. However, the scope of the expectations were unrealistic. From credit financing to establishment of industry, many issues were expected to be solved by foreign capital inflow as in the case of the Chester project.

No doubt, the economic conditions in the 1920s were in favor of commerce. The industrialist, organized under the *Union of Industry*, demanded an appropriate status with respect to their growing power in the economic life of the country. In the reports submitted to the 1928 Congress of the Chamber of Commerce and Industry the conflict of interests between the merchants and the industrialists can easily be witnessed. The reports revealed examples of the disadvantageous position of the industrialists. Credit facilities, for instance, were inadequate compared to those of the merchants. It was also argued that only one of the thirty members of the Istanbul Chamber belonged to the industrial sector. The discussions through the Law for the Encouragement of Industry made it clear that this class, whose benefits was directly linked with the nationalist ideology, conducted a struggle against the more cosmopolitan merchants of the era.

It was with the global political and economic changes induced by the Great depression of 1929 that merchants, as in other countries, lost their privileged position in the national economies. In the 1930s, with the gradually increasing power of the corporatist ideology of the etatist

policies, the Istanbul Chamber of Commerce and Industry seems to turn into a direct organ of the state and lost all its dynamics of the 1920s. The following decade, i.e., 1930s, was a new era for the economic history of Turkey.



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