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Policy response to the Great Depression of the 1930s: Turkish neomercantilism in the Balkan context

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ABSTRACT
In examining the Turkish response to the crisis of the 1930s, this paper contributes to existing literature at three levels: economic policy conception, comparative case selection, and mode of explanation. First, it takes a holistic approach to economic policy (neomercantilism) by looking at its foreign trade and finance (autarkic), microeconomic (etatist), and macroeconomic (neoclassical orthodox) dimensions. Second, it locates the Turkish response in the Balkan context, where other small states responded to comparable stimuli. Third, while viewing the macroeconomic conservatism of Turkish neomercantilism as a situational necessity, it explains the autarkic dimension by the shared German metropolitan linkages of the Balkans as a region, and the etatist dimension by the Kemalist bureaucracy’s larger room for maneuver in a context of wider gap between political modernization and economic backwardness.

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Introduction
International economic crises are ‘points of critical choice’ or ‘moments of flux.’ No government is prepared for them as they come unheralded. Yet, when they set in, they force governments to respond, thus testing the latter’s attachment to existing ways and adaptability to change. Unlike ordinary times defined by a measure of orthodoxy, crises widen policy options. As such, crises are challenging times for policy-makers and of particular interest to policy scholars. In the modern era, there have been only a handful of moments of flux, including the Great Depressions of 1873–96 and the 1930s, the long stagnation of the 1970s and 1980s, and the ‘Great Recession’ of 2008–09.
The Great Depression of the 1930s was the most seismic of modern economic crises. States initially stuck to the neoclassical liberal orthodoxy but turned variably interventionist in the course of the crisis. Free trade was the victim of the crisis everywhere; so was the gold standard as the foundation of international trade and capital mobility. However, only a handful of states went beyond protectionism to experiment with autarky while some actually tried to reconstruct free trade. Various forms of state intervention in the ‘real economy’ dispelled the myth of self-regulating market. Yet there were only a few experiments with national industrial planning. In monetary policy, deflationary orthodoxy gave way to varying degrees of reflation but still had adherents in certain regions. Many states clung to the principles of sound money and balanced budget; only a few found a way to experiment with countercyclical deficit spending.

Turkey produced one of the most innovative economic policy responses to the crisis of the 1930s. The Republican government rendered a developmentalist variant of neomercantilism aiming to maximize production and exports and to minimize consumption and imports within a restrictive macroeconomic framework. Neomercantilism’s defining feature in foreign trade and finance was autarky, which meant not so much economic independence as trade closure and the eclipse of monetary transactions in favor of quasi bartering. A microeconomic policy commonly known as etatism, however, was the cutting edge of the neomercantilist response. State ownership and entrepreneurship, industrial planning, compulsory marketing schemes, and, as a result of all this, circumscription of private economic activity were the hallmarks of a physical, dirigiste mode of intervention in the domestic economy. In the macroeconomic domain, Turkish neomercantilism remained loyal to neoclassical liberalism, producing one of the most successful applications of the ‘sound money and balanced budget’ orthodoxy.

This paper offers a fresh perspective on the Turkish response. In so doing, it contributes to existing literature at three levels: economic policy conception, comparative case selection, and mode of explanation. First, unlike the dominant tendency to identify the Turkish response with etatism, it takes a holistic approach to economic policy by looking at its all three dimensions, namely, foreign trade and finance (autarky), microeconomic dimension (etatism), and macroeconomic dimension (neoclassical orthodoxy). Second, while existing studies focus mostly on Latin America for comparison, the paper locates the Turkish response in the Balkan context, where other small states responded to comparable stimuli. Third, and related to the second, it explains the autarkic dimension of Turkish neomercantilism by the shared German metropolitan linkages of the Balkans as a region, and the etatist dimension by the Kemalist bureaucracy’s larger room for maneuver in a context of wider gap between political modernization and economic backwardness. Thus, by building a measure of contingency into domestic economic policy,
the paper challenges the overly deterministic explanations of etatism in most existing studies.

The paper is organized into three main sections. The first section portrays Turkish neomercantilism in its broader contours. The second section first briefly reviews existing explanations in three groups: ideological, situational, and political. It then presents the argument. The third section provides evidence for the argument.

**A general portrait of neomercantilism**

In at least two fields, Turkish neomercantilism amounted to what Peter Hall calls policy paradigm shift or third-order change. What is distinctive about a third-order change is that it involves not only the precise setting or levels of policy instruments (first-order change) and the techniques or policy instruments used to attain policy goals (second-order change) but also the overarching goals that guide policy in a particular field. The shift from relative openness to autarky in foreign trade and finance was a paradigmatic one as it went beyond, for example, an increase in tariff levels and a replacement of tariffs by import controls or the introduction of exchange controls and clearing trade as new policy instruments. What changed as well were policy goals from trade promotion and capital mobility to trade aversion and capital control. Similarly, Turkey effected a third-order change in the microeconomic domain by shifting from an industrialization policy privileging the private sector to etatism. The change included not just, for example, a decrease in incentives to private industry and a replacement of incentives by new policy instruments such as price fixing and industrial planning. It also included a reorientation of policy from encouragement of private domestic and foreign investment to elevation of state investment and management as principal goals. In macroeconomic terms, however, the Kemalists stuck to the neoclassical paradigm, making only first- and second-order changes (e.g. higher levels and new forms of taxation) to achieve the goals of sound money and balanced budget.

Concerning foreign trade and finance, Turkey established an exchange controls regime with the 1930 Act for the Protection of the Value of Turkish Currency and progressively expanded its scope by issuing periodic decrees. It also sought and managed to strengthen the Lira against major Western currencies by establishing an indirect parity with gold and thus avoiding devaluation. Complementing the strong currency policy was one that sought trade surpluses. The specific customs tariff schedule that had taken effect just before the onset of the crisis in 1929 was made more discriminatory with the introduction of two different – preferential agreement and residual general – schedules in 1933. Tariff protection, however, was only a subordinate element of Turkish trade policy that relied primarily on physical controls.
The government introduced a detailed scheme of import controls by a 1931 legislation that spawned numerous decrees listing the goods whose import would be subject to quota, authorization, or prohibition. The scheme also included country quotas, whereby Turkey favored those trading partners with which it had a clearing or similar agreement and large trade surpluses. Bilateral clearing agreements thus became Turkey’s primary trading mechanism. They handled no less than 80 percent of Turkish foreign trade in the second half of the 1930s.

On the home front, not until 1932 did the Republican government break with the orthodoxy of the 1920s except for increased protection of the domestic market by tariff and particularly nontariff measures. The private sector continued to receive generous incentives in accordance with the 1927 Act for the Encouragement of Industry. Moreover, the government gave added impetus to private industry by expanding the scope of the exemptions from customs duties on intermediate and capital goods imports. In July 1932, however, the government turned to etatism by bringing in a comprehensive legislative package. The overarching aim of the package was the redefinition of the state’s entrepreneurial and banking functions. Dissolving the largely dormant Bank for Industry and Mining, the legislation created the State Industrial Office and the Industrial Credit Bank to institutionally separate the state’s entrepreneurial and banking functions. Only one year later, however, the government reverted to the holding company model by merging these two institutions into the newly created Sümerbank and partially restored the private sector’s exemptions from customs duties on investment goods imports. Yet it was also under this arrangement that etatism had its signature moment in the form of industrial planning. Launched in 1934, the First Five-Year Industrial Plan was a project of state investments in a limited number of industries whose raw materials were domestically available. The government contemplated a second industrial plan while the first one was underway, by establishing another holding company, Etibank. As approved in 1938, the second plan put more emphasis on heavy industries and had a broader scope. Yet, unlike the first, that plan was not implemented.

Etatism was not limited to industrial planning and management. The state was also an active entrepreneurial agent in ways ranging from the nationalization of public utilities and mines to the participation in joint ventures with the private sector. In railroad transportation, for example, the government not only nationalized virtually all foreign-owned lines but also increased the mileage threefold. It also took over all other monopolies controlled by foreign concessionaires. As for private enterprises, they were not entirely cut off from state incentives but had to operate under a system of regimentation consisting of price controls, financial inspections, and regional relocation.

In agriculture, however, etatism made little headway. The Republican government intervened in agriculture in ways that supported industrialization,
leaving the traditional organization of the sector largely intact. With the onset of the crisis, the government even repealed the tariff and credit incentives for the import of agricultural implements. Nevertheless, two pieces of legislation in the July 1932 package marked the beginning of a more interventionist agricultural policy. One initiated monopoly marketing of the opium crop and the other support purchases of wheat by the Agricultural Bank. Beginning in 1935, the bank also organized producers’ cooperatives in export crops and those that were locally processed by import-substituting industries. Later in the decade, the government contemplated a comprehensive agricultural plan. This exercise yielded only modest results. Most notably, a new Office for Soil Products took over grain marketing from the Agricultural Bank while a constitutional amendment authorized the government to implement land reform—a mandate not used.

At the macroeconomic level, the Republican government successfully pursued orthodoxy while innovating institutionally. The nucleus of central banking was formed when the Ministry of Finance and commercial banks set up the Consortium of Banks in early 1930 to implement a currency stabilization program. The Central Bank Act was passed later that year and the bank began its operations the following year. Central banking, combined with industrial and commercial banking via the new holding companies and specialized banks, would make the state the principal agent in finance as well. In substantive terms, Republican monetary policy was strictly deflationary. The government did not issue new paper money until 1939. Nor did the overall money supply increase enough to have a reflationary effect.

Republican fiscal policy was conservative as well. The government lived up to its balanced budget creed while, at the same time, implementing an aggressive industrialization program. Between the 1929–30 and 1937–38 fiscal years, the government ran only three deficit budgets, whose aggregate deficits amounted to no more than 20 percent of the aggregate surpluses of the remaining six budgets. Given the financing requirement of the nationalization and industrialization programs, this is an intriguing performance that can be explained in part by the fiscal organization of the Turkish state. Excluded from the central government budget were the accounts of profit-oriented state enterprises (e.g. Sümerbank and Etibank) and, in large part, those of public utility companies such as the State Railroads Administration, which thus underwrote the bulk of compensations for nationalized lines.

Highlighting off-budget spending, however, begs the question of how it was financed within an orthodox framework. Substantive policy choices provide an adequate answer. First, the Republican government funded part of its industrialization drive by foreign debt to be paid in kind. Second, with the onset of the crisis, Turkey practically stopped servicing its share of the Ottoman debt. After paying the first installment in 1929, the government renegotiated and postponed the remaining installments several times in the
Third, the government not only maintained all existing taxes but also imposed new, indirect taxes targeting consumer goods. These indirect taxes were an effective instrument of revenue generation in a deflationary environment. The government generated additional revenue by arbitrarily fixing the prices of basic consumer goods and services under state monopoly. Coupled with the heavy taxation on consumption, the manipulation of the internal terms of trade in favor of the state sector brought about the ‘sound financing’ of Turkish etatism.

Even more intriguing was the strong performance of the economy within a restrictive macroeconomic framework during the Great Depression. Measured by the gross national product, the economy grew at an average annual rate of 5.2 percent between 1929 and 1939. Sectorally, agricultural output increased at an average annual rate of 4.4 percent and manufacturing output 5.2 percent during the same period. The role of etatism in this performance is far from certain. State economic enterprises’ contribution to industrial and general growth in the 1930s was modest at best as they were relatively few, began operations late in the decade, and thus lacked time to produce large spin-off effects on private enterprises. A severe ‘import repression’ caused by autarkic measures may have had a larger contribution to the economic growth by creating attractive conditions for small and medium-sized manufacturers.

However, the central problematic of this paper is state policy behavior at a critical juncture. Why did the Turkish state respond to the world economic crisis in the way it did? More specifically, what was necessary and what was contingent about its neomercantilist response combining autarky, etatism, and neoclassical orthodoxy? How do we explain what was necessary and what was contingent? The next section will provide a framework for answering these questions in dialogue with established explanations.

**In search of an explanation: necessity versus contingency**

Since existing literature tends to identify the Turkish response with etatism, most explanatory efforts focus on that aspect. And three broad modes of explanation emerged in the historiography of etatism: ideological, situational, and political. Although each brings in a different set of domestic factors by holding the world economic crisis constant, they all see etatism as a progeny of necessity in their respective explanatory frameworks. This paper agrees that the world economic crisis was a constant for Turkey as a small state but diverges from existing explanations by emphasizing the regional and metropolitan context of the Turkish response and the role of agency in it, particularly, etatism.

The ideological mode of explanation gives primacy to Kemalism in the emergence of etatism. More specifically, etatism was the necessary
materialization of the Kemalist ideology in the economic sphere. Thus, even without the world economic crisis, Turkey was already inevitably heading toward etatism with the impulse of domestic conditions. Although etatism had been the Kemalist regime’s primary economic model all along, the argument continues, the regime had to endure a sort of reluctant liberalism – similar to Soviet New Economic Policy – in the 1920s because of the transitional period dictated by the Treaty of Lausanne under which Turkish customs tariff had been fixed at the 1916 level for five years. When Lausanne’s commercial clause expired in 1928, however, the regime had a free hand to transition to its ‘primary model.’

It is true that, coupled with the world-historical liberal tide of the 1920s, the Treaty of Lausanne and the formativeness of the decade for the young Republic were not conducive to any economic policy of the sort to be introduced in the 1930s. This does not, however, validate a teleological explanation, which actually flies in the face of what transpired in the 1920s. Lausanne’s commercial clause that required Turkey to follow the Ottoman tariff schedule of 1916 and not to introduce, with certain exceptions, any quantitative import restrictions for a period of five years applied only to imports from the signatory Allied states. Yet the Republican government not only did not make use of these exceptions but also extended the 1916 tariff to other states via trade agreements.

For the situational mode of explanation, in contrast, etatism had little, if anything, to do with ideology. Rather, it was the situational necessity that spawned the policy. In one variant of this explanation, the crisis itself figures as the deciding factor: ‘The Kemalist adoption of etatism was not due to any political or ideological leanings … but to the sheer practical necessities of the moment.’ To put this argument more aptly, ‘[n]ecessity, and not a doctrinaire vision of the future, was the mother of Étatism [sic].’ In short, it was pragmatic considerations rather than any particular doctrine that led to the etatist turn in crisis conditions. The second variant casts the net more widely by also factoring in the experience of the 1920s. Thus, given the ‘failure’ of the development experience based on private enterprise in that decade and the onset of the crisis subsequently, the Kemalist regime had recourse to etatism ‘as a last resort.’

While in the teleological explanation etatism was just biding its time for the right conditions to burst into life, in this second explanation it was simply dictated by the situation to pragmatic decision-makers. The situational explanation actually gives the Kemalists credit for drawing objective lessons from the experience of the 1920s and for reading the requirements of crisis conditions non-ideologically. Yet both assumptions are unfounded. The experience of the 1920s may have been a failure in terms of industrialization and bureaucratic domination of the economy; however, it was one of the most successful periods in Turkish economic history in many other terms, including...
export-oriented agricultural production, economic openness, and market control of the economy. For example, the exports-to-gross national product and imports-to-gross national product ratios for the period 1923–29 were 10.7 percent and 14.6 percent, respectively (cf. 7.9 percent and 7.2 percent for the 1930s). These levels of openness were not going to be surpassed until the 1980s. Nor was the reading of the ‘practical necessities of the moment’ non-ideological. The world economic crisis may have necessitated a general protectionism but there was hardly anything necessary about etatism. Planning, state industrial management and banking, and import-substituting industrialization were all political choices informed by development ideology among other things.

This is wherein the third mode of explanation proves insightful. Here etatism is seen as a political project either to transform the peripheral economy into a semiperipheral one or to reshape the domestic economic periphery according to the requirements of a modernized polity. As a semiperipheralization project, etatism was made possible by the weakened core-periphery linkages during the world economic crisis and expressed a bureaucratically driven industrialization strategy based on the production of consumer and intermediate goods, thus aiming to strengthen industrial capital vis-à-vis merchant capital. As a modernization project, etatism strove to close the gap between the political center and an economic periphery dominated by commercial-agricultural interests: ‘The success of Etatism can be construed as the effort to restructure economic forms to match the political transformations of the previous period (1923–30) under the direction of the political center.’

With its attention to the articulation and alignment of interests in response to the crisis, the political explanation fills an important gap left by ideological and situational explanations. Actors involved in the formulation of the Turkish response certainly pursued interests however they may have defined them. Was etatism then the product of an interest alignment prevailing over another one? Not necessarily. In the drive to modernize (or semiperipheralize) the economy, the dirigiste bureaucracy was hardly swayed or challenged by a socially based actor. If there was a contestation over economic policy, it was mainly within the bureaucracy and revolved mostly around ideas.

With their focus on etatism, existing explanations do not do justice to the Turkish response, including autarky and neoclassical orthodoxy. In so doing, they miss out on Turkey’s regional and metropolitan connections that largely accounted for its autarkic shift. Even in making sense of etatism itself, existing explanations are not fully satisfying as they do not allow sufficient room for contingency. There was nothing necessary about etatism; general protectionism of the 1929–32 period could have plausibly continued to be Turkey’s economic policy response as championed by the more conservative wing of
the bureaucracy. What tilted the balance in favor of etatism was the ascen-
dance of economic *dirigisme* within the bureaucracy that was aided by a
widening gap between the political and economic levels of development.

As small states, Turkey and the other Balkan states responded to the crisis
in a defensive manner since they were particularly vulnerable to disruptions in
the world economy and the interstate system.\textsuperscript{44} Their responses were not only
to the crisis in general but also to those metropolitan responses that were sig-
ificant to them. With the Balkans constituting a historical sphere of influence
for Germany, the German response figured prominently in the Balkan
responses. What brought the autarkic shift in the Balkans was the coincidence
of the balance of payments crisis in Germany and the region. Lacking foreign
funds to import from nations to its west, Weimar Germany devised a clearing
trade mechanism bypassing currency exchange in 1931 to import raw
materials and primary products from, and export finished products to,
nations in east-central and southeastern Europe. While allowing these
nations to export their primary products and import manufactures without
currency exchange, clearing trade became an explicit scheme under the
Nazis’ New Plan of 1934 to establish and solidify the region as Germany’s
‘living space’ (*lebensraum*) for securing long-term supply of raw materials
and foodstuffs.\textsuperscript{45}

Domestically, however, the Balkan states had more room to maneuver. They thus launched or revived import-substituting industrialization as a
more autonomous response to the balance of payments crisis. Although econ-
omic backwardness and political authoritarianism were part of the shared
context of the region as former territory of the Ottoman Empire,\textsuperscript{46} Turkey
used what Alexander Gerschenkron aptly called the ‘advantages of backward-
ness’ most aggressively.\textsuperscript{47} With the Balkans’ strongest bureaucratic tradition
but without much preexisting industrial or democratic base, Turkey’s Repub-
lican bureaucrats produced the region’s most *dirigiste* industrial policy.
However, the vast but unevenly commodified agricultural sector proved to
be impermeable to the same type of intervention. In contrast, the ‘European’
Balkan states intervened in their highly commodified agricultural sectors
more effectively for both the marketing of products and the protection of pro-
ducers. With their import-substituting industries already making significant
strides in the 1920s, the northern Balkan states in particular registered rela-
tively moderate industrial growth rates during the world economic crisis.\textsuperscript{48}
Turkey and the rest of the Balkans diverged politically as well. While
Turkey settled on a near totalitarian course after limited opening in the
early 1920s, its regional counterparts experienced significant, if checkered,
democratization in that decade and maintained a semblance of electoral com-
petition even after the democratic breakdowns that ensued. Consequently, the
Kemalists had a freer hand at least in the urban sector.
In macroeconomic terms, the Balkan states were conservative, that is, they tried to limit the supply of money and balance their budgets, with mixed results. That they did so – and not use monetary and fiscal policy as a countercyclical tool – was out of necessity. As the macroeconomic innovation of the time, proto-Keynesian demand management required a certain level of economic development, that is, industrialization, proletarianization, and economic measurement (quantification). The peripheral Balkan economies had not reached that level. In their sectoral profile, including an industrial enclave surrounded by a vast primary sector, these economies would not be responsive to countercyclical measures such as cheap money and deficit budget. Nor did they have the levels of proletarianization and hence potential unemployment that could form the basis of a demand stimulus initiative in the form of public works. Moreover, the sectoral and overall movement of a peripheral economy was not fully permeable to statistical quantification that countercyclical demand management would require.

**The evidence in brief**

Turkey’s autarkic and etatist shift in a conservative macroeconomic framework, a typical neomercantilist policy mix, was partly out of necessity and partly by choice. The economy did not have room for macroeconomic policy innovation but the government effectively used existing and new instruments to achieve conservative policy goals. Autarky was brought by a concurrent balance of payments crisis in Germany and its living space in east-central and southeastern Europe. In that sense, it was a situational necessity. Etatism was the innovative edge of the Turkish response and, as such, owed its rise to the ingenuity of the Kemalist bureaucracy in the context of a widening polity-economy gap, which this section will examine from a comparative perspective.

The barter-based clearing trade that was devised in the late Weimar period to alleviate Germany’s balance of payments problem was a windfall for the Balkan economies facing a similar but more severe problem as manifested in the sharp decline in agricultural prices, worsening terms of trade, closure of primary export markets, and cessation of capital inflows. With clearing trade, these peripheral economies were able to export their primary products and import much-needed manufactures in the absence of alternative markets and any capital inflows. Yet, under the Nazis, clearing trade also became a medium of unequal exchange where an overvalued German mark was measured against depreciated Balkan currencies in clearing accounts and where Germany delayed exports and thus accumulated huge import surpluses amounting to a ‘commodity loan’ from the region.49

Paradoxically, autarky brought trade partner dependency. Germany grew into the principal partner for Turkey in both exports and imports. It increased
its share of Turkish exports from 14 percent in 1930 to a record 52 percent in 1936 and its share of Turkish imports from 21 percent in 1930 to a record 51 percent in 1939.\textsuperscript{50} Similarly, bartering replaced currency exchange in the other Balkan nations’ foreign economic relations. This in turn made their economies even more dependent on the German economy. Of the five nations in the region, Bulgaria developed the highest level of dependency. Germany’s shares in Bulgarian exports and imports increased from 34 percent and 30 percent in 1930 to 68 percent and 66 percent in 1939, respectively. This compared with the following increases in German shares in the foreign trade of Greece, Romania, and Yugoslavia between the same years (between 1930 and 1938 for Greece): in Greek exports and imports from 26 percent and 12 percent to 40 percent and 30 percent, respectively; in Romanian from 28 percent and 37 percent to 32 percent and 39 percent; and in Yugoslav from 29 percent and 34 percent to 32 percent and 48 percent.\textsuperscript{51}

The Balkan states had more but differing capacity to act domestically. Unlike Turkish etatism targeting industry rather than agriculture, the diri-gisme of the four other Balkan responses concentrated on agriculture, being largely limited to ‘external’ measures in industry such as cartelization schemes, protection of the domestic market, and various financial incentives.\textsuperscript{52} In Bulgaria, the state monopolized the marketing of agricultural products while, at the same time, providing effective debt relief to producers.\textsuperscript{53} Tariff protection, the highest in the northern Balkans,\textsuperscript{54} was the main form of support given to Bulgarian industry within a conservative macroeconomic framework.\textsuperscript{55} With a heavy debt burden administered by international creditors, Greece was uniquely exposed to the world economic crisis and had to formally abandon the gold standard and devalue its currency, thus becoming the only country in the region to do so.\textsuperscript{56} Notwithstanding the subsequent national default, agricultural producers continued to receive marketing, price, and debt relief support. In industry, however, a more concerted policy would have to wait until after the installation of the Metaxas regime in 1936.\textsuperscript{57} Romania and Yugoslavia were similarly protective of their agricultural sectors with monopolistic marketing, price, and debt relief policies.\textsuperscript{58} In industry, Romania encouraged cartelization that made its sector the most cartelized in the northern Balkans,\textsuperscript{59} but Yugoslavia was not as successful with a similar scheme for its sector defined by high levels of foreign investment.\textsuperscript{60}

The key to the domestic policy divergence between Turkey and the four other Balkan nations lay in their economic and political development experience. More specifically, the 1920s were formative of all Balkan states and critical for that experience. Emerging from World War I with redrawn borders, these states except for Turkey ended up with significant ethnic minorities who constituted majority in a neighboring state in the region.\textsuperscript{61} This demographic shake-up was one of the main reasons for a ‘nationalization’ (nostri-fication) campaign sweeping across the northern Balkans and Greece.\textsuperscript{62}
The campaign included a radical land redistribution scheme in the first place. All four states dissolved large landownership following the end of World War I. As a result, their agricultural sectors became a bastion of smallholding producers. Underlying the strength of agrarian movements, particularly, in the northern Balkans, this experience explains why the four states were highly effective in controlling the rural credit market and helping their small producers during the Great Depression. In contrast, aligning with large landowners in the national struggle for independence, the Turkish bureaucrats did not attempt at land reform in the 1920s. Thus, while being confined to Aegean, Cilician, and southeastern regions, large landownership continued to be a significant component of the agrarian class structure. Aside from the abolition of the tithe in 1925, the only redistributive measure taken by the Kemalists concerning land was the 1934 Settlement Act and that was guided by a desire to dispossess Kurdish landlords in particular. The act authorized the government to take confiscatory measures against large holdings in southeastern Kurdish provinces. Yet, with opposition from the large landowners in other regions, the government would not or could not use its mandate.

Industrialization was the second component of emergent economic nationalism in the Balkans. Particularly, consumer goods industries in Bulgaria, Romania, and Yugoslavia had reached a high degree of import substitution by the late 1920s with the fiscal encouragement and tariff protection of the state. As signaled at the İzmir Economic Congress in early 1923, Turkish public policy, too, aimed to create a national bourgeoisie via fiscal incentives and limited tariff protection while assigning the state to build institutional (e.g. legal and financial) and physical (e.g. railroad transportation) infrastructure. Tellingly, Turkey modeled its 1927 Act for the Encouragement of Industry after Bulgarian and Romanian examples among others. Yet this private sector-based policy led to a sort of crony capitalism or affairisme as better known locally, rather than to any significant measure of industrialization. The differing legacy of industrialization between Turkey and the other Balkan nations affected their import-substituting experiences in the 1930s. Although the latter saw increasing levels of state ownership in industry and finance during the crisis, private enterprise was still a major contributor to further import substitution. As well, they had high levels of foreign capital invested in their economies before and after World War I. Turkey, too, encouraged foreign investment in the form of concessions in such areas as public utilities and resource extraction after the war, but investors proved generally reluctant. The relative weakness of foreign interests in the economy provided Turkish bureaucrats with an added room for maneuvering.

However, economic legacy alone does not fully explain the substantive diri-gisme of the Turkish response. For that, we need to turn to politics. Turkey
followed the rest of the Balkans in industrialization but led the region in authoritarian transition before the Great Depression. This developmental contrast provides the key to what distinguished the Turkish response from its regional counterparts.

Emerging from World War I on the losing side, Bulgaria saw the rise of a genuinely agrarian-populist movement to power in the immediate postwar period. Alexander Stamboliski’s Agrarian Union won the 1919 election, in which the Communists and the Socialists fared well as well, and formed the government ruling until 1923. Having completed the land reform and established an extensive network of credit cooperatives for small producers, the Agrarian Union scored a massive victory in the 1923 election. Shortly after the election, however, Stamboliski was overthrown by a bloody coup and the old order defined by a conservative alliance of the royal, military-bureaucratic, and commercial interests was restored. The Communist Party was banned in 1924, but the party managed to resurface as the Workers’ Party. A democratic coalition (People’s Bloc), including remnants of the Agrarian Union, won the 1931 election and ruled the country until another military coup in 1934. Supported by the authoritarian Zveno (Link) movement, the new regime abolished the constitution and suppressed political parties and trade unions, thus governing by decree. Finally, in 1935, King Boris III staged a bloodless coup to institute his dictatorship. Even after that, however, a semblance of political party contestation was maintained. As late as 1938, for example, the Agrarians, Social Democrats, and Communists were able to win seats in a tightly controlled election.

Greece’s ‘Asia Minor disaster’ in 1922 caused both a demographic shake-up and a democratic opening. The population of Greece surged by about 20 percent with the mass arrival of over 1.2 million ethnic Greeks as the result of a population exchange with Turkey. The ‘refugees’ were settled for the most part in the rural, northern New Lands and gave further impetus to the land reform process. Moreover, they became instrumental in the deepening of the ‘national schism’ (ethnikos dichasmos) between liberal/republican Venizelism, whose popular support base was among the smallholders, including ‘refugees,’ of the New Lands, and conservative/royalist anti-Venizelism, which drew on the native smallholders of the richer south (Old Greece) for popular support. The First Republic founded in 1924 was thus the work of the Venizelist camp, with the anti-Venizelist camp never formally accepting the legitimacy of the republic. The Liberal Party under Eleftherios Venizelos won freely contested elections by appealing to its base via clientelism rather than populism and governed until the financial crisis of 1932, when it gave way to an anti-Venizelist coalition led by the People’s Party. Restoring the monarchy in 1935, the coalition fought the Venizelists to a virtual tie in the 1936 election, in which the Communist Party won enough seats to hold the balance of power. This stalemate was broken by the appointment of a
former general, Ioannis Metaxas, as prime minister by King George II. For the rest of the decade, Greece was ruled by the royally sanctioned Metaxas dictatorship amid a fanfare of totalitarian rhetoric.

Romania more than doubled its population and territory as a result of World War I, becoming ethnically more diverse and inheriting a pattern of large landownerships in the newly acquired lands. This was one of the main reasons for the most radical land reform in the postwar Balkans. With universal male suffrage being introduced in 1917, the 1919 election produced a coalition government of the National and Peasant parties. However, the king summarily dismissed that government and appointed a general as prime minister in 1920, when a new election was then held and gave the general’s People’s Party a majority. Only two years later, the Liberal Party representing urban interests and standing for administrative centralization was restored to office that it had held in war time and that it would hold until 1928 (with an interlude in 1926–27) by ‘manufacturing’ election wins. A relatively free election held in 1928 handed a convincing majority to the successor of the National and Peasant parties (National Peasant Party), which stayed in office until 1930. After that, power further shifted to the royal court: while elections continued to be held until 1937, King Carol II was not bound to appoint the winning party leader as prime minister, thus making the cabinet a revolving door. Finally, in 1938, he established a royal dictatorship, brought a new constitution, and banned political parties in favor of his Front of National Rebirth while, at the same time, reining in the mass-based Iron Guard fascists.

As a creation of the war, the Kingdom of the Serbs, Croats, and Slovenes adopted a unitary but Serbian-conceived constitution in a geography carved up by several ethno-religious groups. Between 1920 and 1928, parliamentary democracy ruled, elections were conducted under universal manhood suffrage, but the party system was fractured. It was the centralist Serbian Radical Party that initiated the land reform process and held office for the most part in that period with support from the Slovenian and Bosnian-Muslim parties or the left-leaning Serbian Democratic Party. While the Communist Party was a perennial threat to the system, what doomed it was the Croatian dissent as represented by the Croatian Peasant Party. King Alexander intervened in the crisis of parliamentary democracy by establishing a royal dictatorship and renaming the country the Kingdom of Yugoslavia in 1929, to be followed in 1931 by a new but still unitary constitution under which political parties, parliament, and the cabinet had a reduced role. Yet the assassination of Alexander in 1934 paved the way for a regency and a gradual loosening of authoritarianism as the opposition began to make increasing gains in elections in terms of votes, if not seats. Moreover, just before the outbreak of World War II, an agreement was reached with the Croatian opposition to create an autonomous Croatia.
The zigzag course of interwar politics in these four nations contained one consistent pattern. Neither in times of political opening nor in those of closure did southeastern European politics resemble that of Western Europe. When parliamentary democracy ruled, it failed to create consent among opposition parties and the rulers kept changing the rules according to their preferences. More critically for our purposes, when dictatorship ruled, it failed to suppress dissent as opposition parties proved resilient. The ‘monarcho-fascist’ Balkan dictatorships lacked the totalitarian coherence of German national socialism or Italian fascism; they were traditional, conservative dictatorships molded in the nineteenth-century fashion.87

Turkey went deeper than any other Balkan country in authoritarian regime installation. After leading the national struggle for independence in a relatively open political environment, the Kemalists became increasingly intolerant of opposition. The 1925 Act for the Restoration of Tranquility, passed immediately after the outbreak of the Şeyh Sait rebellion in the southeast, was a defining moment for the authoritarian turn. Crushing the rebellion grew into a broader repression that targeted all channels of opposition, including the newly founded Progressive Republican Party.88 The Turkish Thermidor lasted for about two years and spared no sources of legal opposition. Political closure went hand in hand with an aggressive nation-building drive whose three key planks were secularization, Turkification, and industrialization. As the regime turned increasingly monolithic, the bureaucracy waged an internal battle over domestic economic policy that would result in the introduction and consolidation of etatism.

Central banking was the first issue of contention within the bureaucracy.89 The so-called moderates wanted the semi-official Business Bank to simply take over central banking functions from the foreign-owned Ottoman Bank, Turkey’s de facto central bank. In contrast, the ‘radicals’ wanted an exclusively central banking institution controlled by the state. Both sides referred to foreign expert advice to make their case.90 Established in 1930, the new Central Bank had a compromise, joint-stock company status with fixed shares to be held by the state, Turkish and foreign commercial banks, and other financial institutions. More tellingly, the bank’s capital was obtained from the American-Turkish Investment Corporation in return for a concessionary monopoly in the production and marketing of matches and lighters.91

Nor did the Republican government signal a departure in industrial policy until late 1930. Two policy reports prepared in early 1930, the so-called Şakir [Kesebir] Plan named after the minister of economy and the government’s Economic Program, recommended nothing more than the continuation and enhancement of state incentives to private industry.92 They even had such recommendations as the establishment of free trade zones and the encouragement of foreign direct investment. A semi-official industrial
congress held later the same year proposed more realistic policies in the context of the time, including a ten-year program of incentives for national private enterprises. Similarly, for agriculture, a semi-official congress held in early 1931 proposed industries that would process cash crops hitherto destined for export markets.

Three developments converged in late 1930 to strongly signal the bureaucracy’s disposition for a new direction in economic policy. First, with a fiat from President Mustafa Kemal [Atatürk], a group of deputies left the ruling Republican People’s Party (Cumhuriyet Halk Fırkası [Partisi], RPP) and formed the Free Republican Party (Serbest Cumhuriyet Fırkası, FRP) in August 1930 to play the role of economic policy critic in parliament, a move indicative of the bureaucracy’s dissatisfaction with the status quo. For the three short months it was allowed to exist, the FRP mounted a vocal critique of the government’s economic policy from a conservative, ‘liberal’ perspective, as well as representing the simmering political discontent among the populace. Second, within the month of the FRP’s foundation, Prime Minister İsmet [İnönü] referred to etatism for the first time. Third, in a September cabinet reshuffle, a dirigiste bureaucrat, Mustafa Şeref [Özkan], was brought in as the new minister of economy.

It seems that, from then on, the new government had a period of gestation for the etatist breakthrough in July 1932. Following the FRP experiment, the RPP as the state party began to organize on a more programmatic basis, including the incorporation of etatism into its program in May 1931. Later that year, the party administration commissioned a report to a top-ranking Ministry of Economy official (Ahmet Şerif [Önay]), with a specific request to elaborate on etatism. The ensuing report was unequivocal in its emphasis on industrial planning for import substitution and the need to institutionally separate the industrial credit and management functions toward that goal. Before making a decision, the government was also monitoring developments abroad with a keen sense. Prime Minister İsmet [İnönü]’s Soviet and Italian trips in the spring of 1932 stood out in this respect. The Soviet planning experience, know-how, and industrial credit, coupled with Italy’s newly launched public financing program for industry (Istituto Mobiliare Italiano), convinced the Republican leadership to go ahead with an etatist industrial policy.

However, the July offensive sparked an instant reaction from the ‘moderate’ bureaucrats closely aligned with the semi-official Business Bank, as well as from private industry itself. They fiercely opposed the cancellation of private industry’s exemptions from customs duties on investment goods imports and the institutional separation of state industrial credit and management functions. A spar over the Business Bank’s plan to establish a paper mill resulted in the dismissal of Mustafa Şeref [Özkan] as minister of economy and the appointment of that bank’s director general (Mahmut Celal [Bayar]) as his
replacement in September 1932, a change engineered by President Mustafa Kemal [Atatürk]. Although this change paved the way for a partial reintroduction of the tariff privileges for private industry and a return to the holding company model in state industrial organization with the establishment of Sümerbank in June 1933, it was during Mahmut Celal [Bayar]’s tenure as minister of economy (1932–37) that actually existing etatism took shape with its Soviet-inspired and -aided industrial planning and ever-expanding state economic enterprises.¹⁰¹

Once etatism took off, the intra-bureaucratic contestation over economic policy significantly subsided. Tellingly, Mahmut Celal [Bayar], chief economic ‘moderate’ of the period, had this to say about the need for etatism: ‘[I]f industrialization was left in the hands of the private initiative, the country still had to wait for two centuries for its accomplishment.’¹⁰² In a way, what has happened was a dual process of moderation on the part of the economic radicals and of radicalization on the part of the moderates. With etatism actually existing, the Kemalists returned to the political question to give a new height to the unification of the state and party structures.¹⁰³ The constitutional entrenchment in 1937 of the principles of Kemalism, including etatism, was as far as totalitarianism could go in the Turkish context.

Conclusion

Turkish neomercantilism, along with the economic and political configuration of the Balkans as a historical region, was undone by World War II and its aftermath. In the radically transformed world-historical and domestic context of the postwar period, this policy mix was not sustainable although its etatist component continued well into the 1970s in mutated forms. As a historical experience, however, it has ongoing lessons for small states and policy scholars. First, the regional context matters. In the interwar period, the Balkan nations shifted to political authoritarianism and economic dirigisme. Yet, in that general shift, there were significant cross-national differences which this paper highlighted between Turkey and the ‘European’ Balkans. Second, the metropolitan context matters. Germany’s clearing trade drive in the Balkans as part of its living space largely shaped the autarkic turn in the region. Third, agency matters. Building on their earlier move to install a fairly modern authoritarian polity against the background of the region’s most backward economy, the Kemalists showed a remarkable capacity to experiment in domestic economic policy.

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Notes
3. This paper prefers etatism as the anglicized version of the French concept étatisme to the generic concept of statism since the former served as the original reference for the Turkish concept devletçilik.
4. For an exception, see Barlas, Etatism and Diplomacy in Turkey.
6. Owen and Pamuk, Middle East Economies, 20; Pamuk, “Intervention during the Great Depression,” 333; Pamuk, Türkiye’nin 200 Yıllık İktisadi Tarihi, 191–2.
8. Against the US dollar, for example, the lira rose from 47 cents in 1930 to 78 cents in 1939. See Thornburg, Spry, and Soule, An Economic Appraisal, 260.
20. Hale, Development of Modern Turkey, 69; Tezel, Cumhuriyet Döneminin İktisadi Tarihi, 111.
26. Owen and Pamuk, Middle East Economies, 21; Pamuk, “Intervention during the Great Depression,” 326. These are actually downwardly revised figures. An earlier estimate by Gülalp, Gelişme Stratejileri, 128 (drawing on Bulutay, Tezel, and Yıldırım, Türkiye Milli Geliri) puts the average annual growth rate at 6.8 percent for the gross national product, 5.8 percent for agricultural output, and 11.6 percent for manufacturing output.


32. Ibid., 254.


38. See Keyder, *Peripheral Economy*, 68–96, for an overview of the period.


40. Pamuk, “Intervention during the Great Depression,” 323.


42. Birtek, “Rise and Fall of Etatism,” 409; see also Kazancıgil, “Ottoman-Turkish State and Kemalism,” 49–50.

43. That etatism had its winners and losers is another matter (one of policy consequence), which will not be covered in this paper.

44. On small states’ economic vulnerability in general, see Katzenstein, *Small States*.


47. Gerschenkron, *Economic Backwardness*.

48. The index of manufacturing output (1913 = 100) increased from 179 in 1929 to 245 in 1938 in Bulgaria, from 137 to 180 in Romania, and from 140 to 190 in Yugoslavia. See Berend and Ránki, *Economic Development*, 300.


54. Lampe and Jackson, *Balkan Economic History*, 413.

64. Lampe and Jackson, Balkan Economic History, 357; Polonsky, The Little Dictators, 167–8.
65. Keyder, Peripheral Economy, 12–20; Silier, Türkiye’de Tarımsal Yapının Gelişimi, 67–70.
69. Boratav, Türkiye’de Devletçilik, 18; Finefrock, “1923 İzmir Economic Congress”; Pamuk, Türkiye’nin 200 Yıllık İktisadi Tarihi, 181; Tezel, Cumhuriyet Döneminin İktisadi Tarihi, 130–5.
70. Tekeli and Ilkin, Türkiye’nin İktisadi Politika Arayışları, 64–7.
73. Pamuk, Türkiye’nin 200 Yıllık İktisadi Tarihi, 181–2; Tezel, Cumhuriyet Döneminin İktisadi Tarihi, 165–72.
75. Lampe, The Bulgarian Economy, 50.
78. Ibid., 296.
79. On a comparison of clientelism and populism, see Mouzelis, Politics in the Semi-Periphery, 73–94.
80. Mavrogordatos, Stillborn Republic, 52.
88. Tunçay, Tek-Parti Yönetimi’nin Kurulması, 127–83.
90. Tekeli and İlkin, Türkiye Cumhuriyet Merkez Bankası, appendices 2–4, 14.
93. Ibid., 121–4.
94. Ibid., 190–7.
95. Barlas, Etatism and Diplomacy in Turkey, 99–107; Emrence, 99 Günlük Muhalifet; Tunçay, Tek-Parti Yönetimi’nin Kurulması, 245–73; Weiker, Political Tutelage and Democracy.
98. Ibid., E49–E71.
99. Ibid., 137–43.
102. Quoted in Barlas, Etatism and Diplomacy in Turkey, 68.
103. Tunçay, Tek-Parti Yönetimi’nin Kurulması, 322.

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