

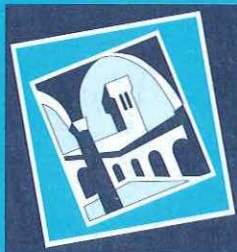
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Turkey's Response to the Great Depression  
in Comparative Perspective, 1929-1939

ŞEVKET PAMUK

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**EUROPEAN UNIVERSITY INSTITUTE, FLORENCE**

**ROBERT SCHUMAN CENTRE  
FOR ADVANCED STUDIES**

**Turkey's Response to the Great Depression  
in Comparative Perspective, 1929-1939**

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EUI Working Paper RSC No. 2000/21

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## 1- Introduction

Many developing countries around the world experienced a turning point during the 1930s. The contrast between 'before and after 1929' may often be exaggerated, but there is little doubt that in many parts of the developing world the decade witnessed a closing towards international trade and capital flows and a relative rise in import-substituting activities. The crisis also changed the nature of political power with a weakening of the large landowners and export oriented interests and the commitment to the liberal order that prevailed until World War I. In many countries control fell into more populist hands, with nationalist leanings towards autarchy and import substituting industrialization.

During the 1980s Carlos Diaz Alejandro and Angus Maddison showed that, whatever the outcomes may be in the longer term, developing economies that shifted to protectionism and inward-looking policies generally fared better during the Great Depression than those that adhered to the earlier strategy based on primary exports.<sup>1</sup> Diaz Alejandro also offered a list of policy instruments adopted by the interventionist governments in Latin America during the 1930s. These were, in order of decreasing importance, exchange rate policies, import repression and import diversion, expansionary monetary and fiscal policies and a variety of other measures ranging from wage repression and public works programs to debt repudiation. These should not be viewed as a comprehensive set of measures, however. In the absence of a unified body of theory, they were mostly ad hoc measures adopted by the different governments in response to the specific conditions in each country.<sup>2</sup> The shift towards an interventionist, inward oriented regime was not complete in the 1930s, but emerged fully after World War II when the export pessimism of Raoul Prebisch and the ECLA arguments of structuralist and interventionist development provided the necessary theoretical support.<sup>3</sup>

Not all regions or countries experienced these trends to the same degree, however. For one thing, shocks, policies and capacities differed substantially from country to country. On the whole, colonies of European powers adhered more closely to the orthodox regimes. Similarly, countries where the landed interests were more powerful or where they could not be challenged tended to remain more passive and adhere to the earlier model.

<sup>1</sup> Diaz Alejandro (1984) and Maddison (1985).

<sup>2</sup> Diaz Alejandro (1984), pp. 17-39. Compare with Bulmer Thomas (1994), pp. 201-37.

<sup>3</sup> Taylor (1998), pp. 3-7.



On the other hand, ability and willingness to actively manipulate policy instruments such as exchange rates, tariffs and domestic credit were greatest in countries which were either large or had relatively autonomous public sectors.

In regional terms, Latin America tended to move more towards the new, inward looking strategy, while the experience of developing countries in Asia was more heterogeneous. Around the Mediterranean the outcomes were also diverse. In comparison to the expansionary countries in Latin America, southern European countries tended to remain fiscally conservative while embracing protectionism and stronger bilateral relations with Germany. In Fascist Italy the government moved slowly towards a controlled economy. An orthodox policy of tight money was accompanied by tariff measures to protect those domestic industries that stood to lose the most from an overvalued currency. Coercive measures typical of consolidated dictatorship were taken both to reduce wages and control prices. Recovery from the depression was therefore slow until the orthodox policies were reversed in 1935 by the decision to conquer Abyssinia.<sup>4</sup> In Greece macroeconomic policy was more expansionary. In addition to providing early support to tobacco and wheat producers, the government moved away from the gold standard in 1932, the first country in the Balkans to do so, and adopted exchange controls the following year. With protectionism and other forms of government support for import substituting activities, the industrial sector in Greece registered during the 1930s one of the highest rates of expansion anywhere in Europe.<sup>5</sup>

In the eastern and southern Mediterranean, on the other hand, colonial administrations in Syria, Lebanon, Palestine and the countries of the Maghrib (Morocco, Algeria and Tunisia) did relatively little in response to the depression. Writers on the British and French empires a number of major principles underlying colonial economic practice all of which were in evidence in the management of these countries. Most importantly, colonies were expected to pay for themselves without recourse to special financial assistance from the metropolis. This produced pressures for fiscal conservatism including the need to balance the budgets. Secondly, the colonial currencies were tied closely to that of the metropolis to facilitate trade and payments flows. Typically, a colonial currency was managed by a currency board in London or Paris.<sup>6</sup>

<sup>4</sup> Feinstein, Temin and Toniolo (1997), pp. 175-77.

<sup>5</sup> Lampe and Jackson (1982), pp. 434-519.

<sup>6</sup> Owen and Pamuk (1998), pp. 51-53.

In Egypt, in addition to British pressure, large landowners enjoyed often decisive influence over the nominally independent government. The landowners exercised control through their association with the various parties as well as their strong presence in the parliament. Under the circumstances, the emerging manufacturing interests could hope to obtain government support only to the extent allowed by the landed groups. Hence, support for the domestic textiles industry was the logical choice. The extent of protectionism for this and other branches of industry remained limited in relation to other, more interventionist countries, however.<sup>7</sup>

This paper will re-examine the economic policies and the performance of the Turkish economy during the Great Depression from the comparative perspective offered by Diaz Alejandro and Maddison. The Great Depression was sharply felt especially in the foreign trade oriented regions of the country. In response, the policies of the government controlled by an urban based bureaucracy were strongly interventionist. Protectionist measures of the early years were followed in 1932 by the adoption of etatism or import substituting industrialization led by the state. The recovery of the 1930s was stronger in Turkey than anywhere else around the eastern Mediterranean.

The legacy of the 1930s profoundly influenced attitudes toward international trade in Turkey. Per capital foreign trade indicators reached in the 1920s were not surpassed until the 1960s. Similarly, the degree of openness of the 1920s as measured by the exports/GDP ratio was not exceeded until the 1980s. Unfortunately, because of the absence of long term macroeconomic series until recently, it has not been possible to study analytically and quantitatively the 1930s and more generally the first half of this century. Partly because of this deficiency, debates about the 1930s have focused overwhelmingly on etatism or state-led industrialization as a model for the post-World War II era.

The paper will also examine the reasons for the relatively strong performance of Turkey's economy during 1929-1939. Turkey belongs to the camp of interventionist regimes during the 1930s. The commonly accepted explanation has long emphasized that etatism or state led industrialization was responsible for the strong performance of the urban sector. While etatism significantly contributed to the country's industrialization after World War II, it is difficult to accept that argument

<sup>7</sup> Owen and Pamuk (1998), pp. 34-45.



for the 1930s, in view of the limited numbers of state economic enterprises and their output levels in comparison to the overall size of the Turkish economy at that time.

I will show that, as was the case in many developing countries, government economic policies were rather eclectic during the 1930s. While exchange rate policies resulted in the appreciation of the currency, fiscal and monetary policies were not expansionary until the very end of the decade. Instead, the government preferred balanced budgets and a stable money supply. We thus have an apparent puzzle in our hands. How can such a cautious approach to macroeconomic policy be consistent with the strong performance of the urban sector and the national economy?

I will argue that severe import repression was one of the most important reasons behind the performance of the urban sector during the 1930s. The protectionist measures adopted by the government including an increasingly restrictive foreign exchange regime and bilateral trading arrangements sharply reduced the import volume, creating attractive conditions for the mostly small and medium sized domestic manufacturers.

There is another explanation for the overall performance of both the urban and the national economy which has often been ignored by economists and economic historians in their often heated debates over etatism and its implications. For that I will turn to agriculture, the largest sector of the economy employing more than three-fourths of the labor force during the 1930s and accounting for close to half of the GDP. I will show that despite the sharp deterioration of the intersectoral terms of trade, agricultural output registered significant increases during the 1930s. I will argue this strong performance can be explained in terms of the availability of marginal lands combined with the demographic and economic recovery of the countryside after a decade of wars lasting until 1922. All of this inevitably raises questions about the effectiveness and contribution of the state sector to the strong economic performance of the 1930s.

## 2- The Great Depression

The struggle for independence organized after World War I under the leadership of Mustafa Kemal against foreign occupation of the country culminated in the foundation of a new nation state in 1923. The former military officers, bureaucrats and intellectuals who assumed the positions of leadership in the new republic had strong political, social

and ideological ties to the Young Turk movement. They had been influenced by the ideas of Enlightenment and the rationalist, libertarian thought of the French Revolution. During the War of Independence they had sought and obtained the support of provincial notables, large landowners, Muslim merchants and religious and tribal leaders, Turkish and Kurdish. They viewed the building of a new nation state and modernization through Westernization as two closely related goals.

Their economic policies followed directly from this outlook. They strived, from the onset, to create a national economy within the new borders. Construction of new railroads and the nationalization of the existing companies were also seen as important steps towards the political and economic unification of the new state. Industrialization and the creation of a Turkish bourgeoisie were viewed as the key ingredients of national economic development. The Kemalist leadership was also keenly aware that Ottoman financial and economic dependence on European powers had created serious political problems for the Ottoman state.<sup>8</sup>

After a decade of war and dramatic decline in output levels, agricultural sector which accounted for close to half of the national economy experienced a sharp recovery during the 1920s. This recovery was helped by the favorable price and demand trends in the world markets, and in turn, provided an important lift to the urban economy. Sectoral growth rates summarized in Table 1 indicate that agricultural output almost doubled from 1923 until 1929. Nonetheless, detailed comparisons of Ottoman and Turkish production statistics suggest that by the end of the decade per capita production levels in Anatolian agriculture were still somewhat lower than those prevailing on the eve of World War I.<sup>9</sup>

The principal mechanism for the transmission of the Great Depression to the Turkish economy was the sharp decline in the prices of agricultural commodities. Prices of wheat and other cereals declined by more than 60 percent from 1928-29 to 1932-33 and remained at those levels until the end of the decade. Prices of the leading export crops, tobacco, raisins, hazelnuts and cotton also showed declines averaging around 50 percent, although they recovered somewhat later in the decade. Since these decreases were greater than the decline in the prices of non-agricultural goods, the external terms of trade of the country deteriorated

<sup>8</sup> Tezel, *Cumhuriyet Döneminin*, pp. 389-97; Keyder, *State and Class in Turkey*, pp. 91-101.

<sup>9</sup> Özel and Pamuk (1998).



by more than 25 percent and the domestic terms of trade shifted against agriculture by 31 percent from 1928-29 to 1932-33. (Tables 3 and 4). In contrast, the physical volume of exports continued to rise after 1929, perhaps reflecting the continued recovery in output levels. Nonetheless, the result was a sharp decline in the real incomes of most market-oriented agricultural producers. The adverse price movements thus produced a sharp sense of agricultural collapse, especially in the more commercialized regions of the country.<sup>10</sup> Also in 1929, the economy went through a severe foreign exchange crisis, both real and speculative, arising in part from the sharply higher import volume ahead of the expected tariff increases and in part due to the anticipation of the first annual payment on the Ottoman debt.<sup>11</sup>

In response, the government moved quickly towards protectionism and greater control over foreign trade and foreign exchange. A new tariff structure was adopted in October 1929 as soon as the restrictions of the 1923 Lausanne Peace Treaty on commercial policy ended. Average tariffs on imports are estimated to have increased from 13 to 46 percent in 1929 and to more than 60 percent by the second half of the 1930s. Equally importantly, tariffs on imports of foodstuffs and manufactured consumer goods were raised substantially but kept lower for agricultural and industrial machinery and raw materials. For this reason, the effective rates of protection on many of the final goods selected for protection were substantially higher. In addition, quantity restrictions were introduced on the imports of a long list of goods in November 1931. The lists were updated frequently and some of the tariffs were raised further during the 1930s as import substitution spread to new sectors.<sup>12</sup> The immediate beneficiaries were the small and medium scale manufacturing enterprises in many parts of the country consisting of textile mills, flour mills, glass works, brick factories, tanneries and others which began to experience high rates of growth. A recent study estimated the average rate of growth of this manufacturing sector at 6.3 percent per annum during 1929-1933.<sup>13</sup>

The crisis that began in 1929 had a number of other important repercussions as well. First, concern for trade deficits and balance of payments problems moved the government increasingly towards clearing

and barter agreements and bilateral trade. By the second half of the decade, more than 80 percent of the country's foreign trade was being conducted under clearing and reciprocal quota systems. These bilateral arrangements also facilitated the expansion of trade with Nazi Germany, which offered more favorable prices for Turkey's exports as part of its well-known strategy towards southeastern Europe. Germany's share in Turkey's exports rose from 13 percent in 1931-33 to an average of 40 percent for 1937-39. Similarly, its share of Turkey's imports increased from 23 percent in 1931-33 to 48 percent in 1937-39.<sup>14</sup>

It is significant that the government did not use exchange rate policy to improve the balance of payments and soften the impact of the depression. On the contrary, the existing parity of the Turkish Lira vis-a-vis was strictly maintained even as the leading international currencies were devalued. As a result of the actions of other governments, the Lira was revalued by a total of 40 percent against both the sterling and the dollar between 1931 and 1934 and the new parities were maintained until the end of the decade.<sup>15</sup>

Even though the export volume continued to rise in absolute terms, these far-reaching changes in the structure of foreign trade combined with the adverse price movements and the increases in GDP later in the decade to lead to a sharp decline in the share of exports in GDP from 11.4 percent in 1929-29 to 6.9 percent in 1938-39. (see Table 3) It is thus clear that exports did not act as a source of recovery for the national economy during the 1930s. The causes of that recovery have to be searched elsewhere.

Government concern with the balance of payments also led to a cessation of payments on the external debt and a demand for a new settlement after the first annual payment in 1929. The subsequent negotiations, aided by the crisis of the world economy and demands for resettlement by other debtors, produced a favorable result, reducing the annual payments by more than half for the rest of the decade. For the rest of the decade, the Kemalist regime sought foreign funds and expertise for its industrial projects. Due to the world economic crisis, however, inflows of foreign capital remained quite low during the 1930s.<sup>16</sup>

<sup>10</sup> Since most of the impact of the Great Depression was felt through price effects, national income accounts prepared in constant prices do not reflect the severity of the impact.

<sup>11</sup> Tekeli and Ilkin (1977), pp. 75-90 and Tezel (1986), pp. 98-106.

<sup>12</sup> Yücel (1996), pp. 74-84 and 105-113.

<sup>13</sup> Zendisayek (1997), pp. 54-106; also Yücel (1996), pp. 113-130; Boratav (1981), pp. 170-76; Kazgan (1977), pp. 231-73.

<sup>14</sup> Tezel (1986), pp. 139-62 ; Tekeli and Ilkin (1982), pp. 221-49.

<sup>15</sup> Tezel (1986), pp. 144-150. Bent Hansen's calculations show that the effective exchange rate against the leading trade partners also appreciated sharply during this period. Hansen (1991), p. 374-75.

<sup>16</sup> Tezel (1986), pp. 165-89.



### 3- Etatism

The difficulties of the agricultural and export-oriented sectors quickly led to popular discontent with the single-party regime, especially in the more commercialized regions of the country: in western Anatolia, along the eastern Black Sea coast and the cotton growing Adana region in the south. The wheat producers of central Anatolia who were connected to urban markets by rail were also hit by the sharply lower prices. As the unfavorable world market conditions continued, the government announced in 1932 the beginning of a new strategy called *etatism*, or state-led import substituting industrialization.

Etatism promoted the state as a leading producer and investor in the urban sector. A first five-year industrial plan was adopted in 1934 with the assistance of Soviet advisers. This document provided a detailed list of investment projects to be undertaken by the state enterprises rather than an elaborate text of planning in the technical sense of the term. A second five-year plan was initiated in 1938 but its implementation was interrupted by the War. By the end of the decade, state economic enterprises had emerged as important, and even leading, producers in a number of key sectors such as iron and steel, textiles, sugar, glass works, cement, utilities and mining.<sup>17</sup>

Etatism involved the extension of state-sector activities and control to other parts of the urban economy as well. Railways which were nationalised from European ownership as well as the newly constructed lines were transformed into state monopolies. Most of the state monopolies which had been handed over to private firms in the 1920s were taken back. In transportation, banking, and finance, state ownership of key enterprises was accompanied by increasing control over markets and prices. At the same time, the single-party regime maintained tight restrictions on labour organization and labour union activity. These measures paralleled the generally restrictive social policies of the government in other areas. It is significant that despite considerable growth in the urban sector during the 1930s, real wages did not exceed their levels of 1914.<sup>18</sup>

Etatism has undoubtedly had a long lasting impact in Turkey. For better or worse, this experiment also proved to be inspirational for other

<sup>17</sup> Tekeli and Ilkin (1982), pp. 134-220; Tezel (1986), pp. 197-285 ; Boratav (1981), pp. 172-89; Hansen (1991), pp. 324-335 ; Hershlag (1968), chapters 4 and 9.

<sup>18</sup> Pamuk (1995), pp. 96-102.

state-led industrialization attempts in the Middle East after World War II.<sup>19</sup> From a macroeconomic perspective, however, the contribution of the state sector to the industrialization process in Turkey remained modest until World War II. For one thing, state enterprises in manufacturing and many other areas did not begin operations until after 1933. The total number of active state enterprises in industry and mining on the eve of World War II did not exceed 20. Official figures indicate that in 1938 total employment in manufacturing, utilities and mining remained below 600 thousand or about 10 percent of the labor force. State enterprises accounted for only 11 percent of this amount, or about 1 percent of total employment in the country. Approximately 75 percent of employment in manufacturing continued to be provided by small-scale private enterprises.<sup>20</sup>

It would be difficult to argue, however, that the private sector was hurt by the expansion of the state sector during the 1930s. The largest private enterprises were in the foreign trade sector, and these were affected adversely by the contraction of foreign trade. This was, however, more due to the disintegration of international trade than etatism itself. Elsewhere in the urban economy, most of the private enterprises remained small in size. By investing in large, expensive projects in intermediate goods and providing them as inputs, the state enterprises actually helped the growth of private enterprises in the manufacturing of final goods for the consumer. Private investments continued to be supported and subsidized during the 1930s. Nonetheless, the private sector remained concerned that the state sector might expand at its own expense. Tensions between the two sides continued.

There is some admittedly crude evidence on the rates of investment by the state and private sectors which sheds additional light on their respective roles. These estimates show that total gross investment in Turkey averaged more than 12 percent of GDP during 1927-29. Private investment accounted for about 9 percent, and the rest came from the state sector, primarily in the form of railroad construction. With the onset of the Depression, private investment dropped sharply to 5 percent of GDP and stayed at that level for the rest of the decade. State investments, on the other hand, rose modestly to an average of 5 percent of GDP by the end of the decade.<sup>21</sup> These estimates suggest that the state sector made up for

<sup>19</sup> For the influence of etatism on the state-led industrialization strategies in other Middle Eastern countries after World War II, see Richards and Waterbury (1990), pp. 174-201.

<sup>20</sup> Tezel (1986), pp. 233-37.

<sup>21</sup> Tezel (1986), pp. 362-88.



some of the decline in private investment during the Depression but was not able to raise the overall rate of capital formation. It is also possible that the investment rates of the late 1920s were unusually high due to the post-war reconstruction and recovery. If so, one may conclude that the aggregate rate of investment fully recovered in the second half of the 1930s even though it had declined after 1929.

Sectoral breakdown of public sector investment is also instructive. Close to half of all fixed investments by the public sector during the 1930s went to railway construction and other forms of transportation. This substantial commitment reflects the overriding desire of the single-party regime to create a politically and economically cohesive entity within the new boundaries. In comparison, industry received limited resources, attracting no more than a quarter of all public investment, or slightly above 1 percent of GDP during the second half of the 1930s. This low figure supports our earlier argument that the contribution of etatism to the industrialization process remained modest in the 1930s.

#### 4- Sources of Economic Growth

It is difficult to be precise about the rate of growth of industrial output and more generally the rate of growth of the urban sector during the 1930s. In their reconstruction of the only series of national income accounts for the period before 1948, Tuncer Bulutay and his colleagues assumed, in the absence of other evidence, that the manufacturing sector as a whole grew at the same rate as those mostly large establishments which received subsidies from the government under the law for the Encouragement of Industry, for which data was available.<sup>22</sup> This method sharply overstated the extent of increase in manufacturing output. In fact, other independent evidence has since become available showing that the small manufacturing establishments achieved a more modest increase in output during the 1930s. The consequent revisions to the Bulutay calculations bring down the overall annual rate of growth for manufacturing industry from more than 10 percent to 5.2 percent per annum.<sup>23</sup> This is undoubtedly a significant correction, but the latter rate is still remarkable for the decade of the Great Depression. The revised estimates presented in Table 2 still point to a strong performance for the economy as a whole.

<sup>22</sup> Bulutay et. al. (1974).

<sup>23</sup> Zendisayek (1997), chapter 4.

We thus have an apparent puzzle in our hands. We have evidence of strong performance by the industrial sector, the urban economy and the national economy. At the same time, aggregate figures show that the contribution of the state sector to the urban economy, both as an investor and as a producer, was rather modest during the 1930s. How can these growth rates be explained?

The experience of other developing countries during the 1930s suggest that one important candidate is exchange rate policy.<sup>24</sup> However, it has already been shown that rather than using devaluations to soften the impact of the depression, the government actually allowed the Lira to appreciate by 40 percent against the sterling and the dollar between 1932 and 1934. Similarly, fiscal policy can hardly be characterised as expansionary during the 1930s. Government revenues and expenditures increased only modestly from about 13 to 15 percent of GDP in the late 1920s to a new range of 17 to 19 percent during the 1930s. Government budgets remained balanced despite minor yearly fluctuations and no attempt was made to use deficit financing as an additional mechanism for generating savings.<sup>25</sup> As a result, the nominal amount of currency (banknotes plus coinage) in circulation also remained stable and was linked closely to the gold and foreign currency reserves of the Central Bank until 1938. Despite this passive stance, there occurred a large increase in the real money supply after 1929 due to the decline of the aggregate price level.<sup>26</sup> The most important reason behind this cautious approach to macroeconomic policy was the bitter legacy of the Ottoman experience with budget deficits and large external debt until World War I and the inflationary experiment with paper currency during the War. Ismet İnönü, a close associate of Atatürk and the prime minister for most of the interwar period, was a keen observer of the late Ottoman period and the person most responsible for this conservative policy stance.<sup>27</sup>

In the absence of the use of currency depreciation, fiscal policy or monetary policy to expand aggregate demand, the strong protectionist measures adopted by the government beginning in 1929 emerge as one of

<sup>24</sup> For the close relationship between exchange rate devaluations and economic recovery in Latin American countries during the 1930s, see Campa (1990).

<sup>25</sup> Tezel (1986), pp. 368-88; Yücel (1996), pp. 62-73.

<sup>26</sup> Yücel (1996), pp. 55-59. It appears unlikely that this de facto increase in the real money supply had a significant impact on the level of aggregate demand.

<sup>27</sup> The government's reluctance to pursue expansionary policies was, of course, consistent with the orthodoxy of the period. For a recent survey of the restrictive fiscal and monetary policy that prevailed in the United States and western Europe until 1933, see Temin (1989), chapter 2; also Eichengreen (1992).



the key causes of the output increases after 1929.<sup>28</sup> In addition to tariffs and quotas on a wide variety of manufactured goods, an increasingly restrictive foreign exchange regime and a growing reliance on bilateral trading arrangements sharply reduced imports from 15.4 percent of GDP in 1928-29 to 8.7 percent by 1932-33 and 6.8 percent by 1938-39. Even more importantly, the composition of imports changed dramatically. The share of final goods declined from 51 percent in 1929 to 21 percent in 1940 while the share of intermediate goods rose from 26 percent to 54 percent and machinery and equipment from 9 percent to 22 percent during the same period. Severe import repression thus created very attractive conditions for the domestic manufacturers after 1929. These mostly small and medium sized producers achieved relatively high rates of output growth for the entire decade until World War II.<sup>29</sup>

There is yet another explanation for the overall performance of both the urban and the national economy which has often been ignored by economists and economic historians in their often heated debates over etatism and its meaning.<sup>30</sup> For that we need to turn to agriculture, the largest sector of the economy, employing more than three fourths of the labor force during the 1930s and accounting for close to half of the GDP.

### 5- Agricultural Expansion During the Depression

The story of the agricultural sector during the interwar period has two parts, one about prices, the other about quantities. First, as it has already been pointed out, the collapse of commodity prices and the deterioration of the intersectoral terms of trade after 1929 had severe consequences for most producers. Not only did the market-oriented producers, both small and large, in the more commercialized, export-oriented regions of the country experience a decline in their standards of living, but so too did the more self-sufficient producers of cereals in the interior. The decline in the terms of trade of the latter were in fact much greater than those of the producers of non-cereals. (See Table 4) The sharp decline in agricultural prices also increased the burden of the indebted peasantry, forcing many to give up their independent plots and accept sharecropping arrangements.

<sup>28</sup> See Table 2 and Tezel (1986), pp. 102-103.

<sup>29</sup> Zendisayek (1997), pp. 54-105; Yücel (1996), pp. 89-130.

<sup>30</sup> For the debate, see Hershlag (1968), chapter 4; Boratav (1981); Keyder (1987), chapter 5 and Tezel (1986), pp. 197-232.

One of the responses of the government was to initiate, after 1932, direct and indirect price support programs in wheat and tobacco. It began to purchase wheat from the producers, first through the Agricultural Bank, and later via an independent agency established for this purpose called the Soil Products Office. Until the end of the decade, however, such purchases remained limited, averaging 3 percent of the overall crop or about 15 percent of the marketed wheat.<sup>31</sup>

These purchases may have prevented a further decline in wheat prices, but they certainly did not reverse the sharp deterioration of the terms of trade faced by the wheat producers. In fact, a comparison of the Turkish wheat prices with those of the U.S. shows that the domestic price of wheat had been above international world prices before 1929 when Turkey was a net importer. With the increases in wheat production, domestic prices fell below and remained close to the sharply lower international prices during the 1930s. Clearly, the sharply lower agricultural prices were seen as an opportunity by the government to accelerate the industrialization process in the urban areas. It is also significant that the prices of export crops, and more generally of the non-cereal crops did not fare as poorly. The terms of trade faced by the producers of non-cereals improved after 1934, regaining their pre-1929 levels by the end of the decade. (Table 4)<sup>32</sup>

More generally, the distributional impact of protectionism during the 1930s can be analyzed with a sector-specific factors model. Turkey was a land-abundant, capital and labor-scarce country during the interwar period. Agriculture used land and labor and the urban sector used capital and labor. Despite the possibility of rural-urban migration, labor and capital was mostly immobile between the rural and urban sectors until 1950. Under these circumstances, the rural-urban dichotomy can best explain the distributional impact of the tariffs. Land and labor in agriculture lost but capital and labor in the urban sector gained from protectionism.<sup>33</sup>

<sup>31</sup> based on Atasagun (1939) and Bulutay et. al. (1974).

<sup>32</sup> In contrast to the studies approaching the 1930s from the perspective of urban economy and etatism, Faruk Birtek and Çağlar Keyder emphasized the importance of agriculture and the key position of the middle farmer. They argued that a key element in government policy of the period was the political alliance with and the support provided to the medium-sized, market-oriented wheat producer. Birtek and Keyder (1975). While the emphasis on the countryside is refreshing, the argument is not consistent with the limited volume of wheat purchases and the trends in relative prices. For a similar criticism, see Boratav (1981), pp. 180-86.

<sup>33</sup> See O'Rourke (1995) and O'Rourke (1997), pp. 775-81 and compare with the more general Heckscher-Ohlin framework used by Rogowski (1989).



However, such an analysis needs to take into account second order effects as well. Most importantly, there were the benefits to the agricultural sector of the growth and industrialization in the urban sector. In addition to increased demand for traditional foodstuffs, the rise of manufactures in textiles, sugar, tobacco and other products created new demand for cotton, sugar beets, tobacco and other cash crops. Domestic prices of these crops may have exceeded international prices during the second half of the 1930s. If so, these second order effects helped distribute some of the benefits of urban growth to the rural sector.

The second part of the story about agriculture during the Great Depression is less well known, but at least equally important. Evidence from a variety of sources, including the official statistics, show that agricultural output increased by 50 percent to 70 percent during the 1930s, after adjustments are made for fluctuations due to weather. The evidence thus indicates an average rate of growth of more than 4 percent per year for aggregate agricultural output during the decade. Similarly, foreign trade statistics indicate that Turkey turned from being a small net importer of cereals at the end of the 1920s into a small net exporter of wheat and other cereals on the eve of World War II, despite a population increase of 20 percent during the 1930s. (Tables 1 and 4)<sup>34</sup>

The next task would be to explain these substantial increases in output in the face of unfavorable price movements. Two different and not mutually exclusive explanations appear possible, although it may not be easy to assess the contributions of each without more detailed research. First, government policies may have played a role. Most importantly, the abolition of the tithe in 1924 may have contributed to the recovery of the family farm by improving the welfare of small and medium-sized producers and helping them to expand the area under cultivation or to raise yields. Another important contribution of government policy was the construction of railways, which helped integrate additional areas of Central and Eastern Anatolia into the national market. Railways may have encouraged the production of more cereals in these areas. The government was also involved in a number of other programs in support of the agricultural sector, such as the expansion of credit to farmers through the state-owned Agricultural Bank, promotion of new agricultural techniques and higher yielding varieties crops. Despite the rhetoric from official circles, these

<sup>34</sup> Net imports of wheat averaged percent of 2.0 domestic production during 1926-1929. Net exports of wheat averaged 2.5 percent of domestic production a decade later, during 1936-1939. Turkey, *Statistical Yearbooks* for 1930-31 and 1940-41 and Bulutay (1974).

programs did not receive large resources, however, and their impact remained limited.

The second explanation focuses on the long-term demographic recovery of the family farms and their response to lower prices. In the interwar period, Anatolian agriculture continued to be characterized by peasant households which cultivated their own land with a pair of draft animals and the most basic of implements. Most of the large holdings were rented out to sharecropping families. Large-scale enterprises using imported machinery, implements and wage labourers remained rare. Irrigation and the use of commercial inputs such as fertilisers also remained very limited. If one reason for the strength of family farms was the scarcity of labour, the other was the availability of land, especially after the death and departure of millions of peasants, both Muslim and non-Muslim during the decade of wars. Under these circumstances, increases in production were achieved primarily through the expansion of cultivated area, so that a shortage of labor emerged as the effective constraint in blocking higher agricultural output in most parts of the country.

After the wars ended and the population began to increase at annual rates of around 2 percent, the agricultural labor force followed suit, albeit with a time lag, thus facilitating the expansion of the area under cultivation. The basic agricultural trends summarized in Table 4 confirm this picture. They show that while yields remained little changed, the area under cultivation expanded substantially during the 1930s. Area cultivated per person and per household in agriculture also increased. Numbers of draft animals rose by about 40 percent during the same period, both confirming the material recovery of the peasant household and facilitating the expansion in cultivated area.<sup>35</sup> Comparisons of the late Ottoman and early Turkish statistics indicate that per capita agricultural output did not return to pre-World War I levels until 1929 and the early 1930s. Total agricultural output reached pre-War levels only in the second half of the decade. The availability of land also helps explain why land reform and redistribution of land did not become an important issue in Turkey during the interwar period except in the southwest where Kurdish tribal leaders controlled large tracts of land.<sup>36</sup>

An additional factor contributing to output growth may have been due to the economic behavior of peasant households. It is possible that peasant households relying mostly on family labor responded to the lower

<sup>35</sup> Shorter (1985).

<sup>36</sup> Keyder and Pamuk (1984), pp. 61-63.



cereal prices after 1929 by working harder to cultivate more land and produce more cereals in order to reach certain target levels of income. Increases in land under cultivation per household and per person in the agricultural labor force would support this explanation as well as the argument for the demographic and economic recovery of the family farm.<sup>37</sup>

Sharply lower prices and rising output levels in agriculture thus created very favorable conditions for the urban sector during the Interwar period. Underlying the high rates of industrialization and growth in the urban areas were the millions of family farms in the countryside which continued to produce more despite the lower prices. These increases in crop output, in turn, kept food prices low for longer periods of time. Without this performance from the countryside, protection of domestic industry alone would not have allowed the urban sector to achieve such high rates of growth. (Graph 3)

## 7- Conclusion

The case of Turkey during the Great Depression is unique around the eastern Mediterranean not only because of the extent of government interventionism but also the strength of economic recovery. At the same time, however, this paper has shown that the policy mix in Turkey was rather unusual in comparison to the activist government initiatives in other developing countries in Latin America and Asia. In Turkey, government interventionism was not designed, in the Keynesian sense, to increase aggregate demand through the use of devaluations and expansionary fiscal and monetary policies. Instead, the emphasis was on creating a more closed, more autarkic economy and increasing central control through the expansion of the public sector. These preferences were directly related to the bureaucratic nature of the regime.

The paper has also shown that contrary to the assertions of much of the existing literature, the contribution of the state sector to the recovery and growth of the 1930s remained limited. Instead, it was the small and medium sized private enterprises benefiting from the severe import repression and the strong performance of the agricultural sector that sustained the economy until late in the decade.

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<sup>37</sup> This would be consistent with the behavior of the peasant household as analyzed by the Russian economist Chayanov (1987).

The economic model and strategy for development thus created during the Great Depression worked in the 1930s, and for the most part, through the 1960s when much of the import substitution was technically simple and protectionism created strong incentives for continued accumulation in the urban sector. The state sector played an important role in the industrialization process during this period. Since then, however, the legacy of the 1930s has been casting a long shadow on Turkey's economic development. Efforts to reduce the extent of government regulations and privatize the state economic enterprises has had a mixed record against the political and legal opposition during the last two decades.

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Table 1

Turkey : Basic Economic Indicators 1923-1946

	1923	1929	1939	1946
Population in millions	13	14	17.5	19
Share of Agriculture in the labor force	n.a.	80	77	77
GNP per capita in 1990 PPP doll.	615	1,015	1,425	1,180
Share of agriculture in GNP (percent)	40	52	39	46
Share of Manufacturing in GNP (percent)	12	9	17	13
Share of Total Industry incl. construction in GNP	16	14	22	18

Table 2

## Turkey : A Periodization of Economic Growth, 1923-1946

Average Annual Rates of Growth in percent	1923 to 1946	1923 to 1929	1929 to 1939	1939 to 1946
Population	1.9	1.7	2.2	1.2
GNP	4.6	10.3	5.2	-2.0
GNP per capita	2.6	8.4	3.0	-3.2
Agricultural Output	4.9	13.6	4.4	-1.4
Manufacturing Output	3.3	7.2	5.2	-3.0
Total Industrial Output including construction	4.5	10.2	5.7	-2.6

*Sources for Tables 1 and 2:*

Calculations based on Turkey, State Institute of Statistics (1994); Bulutay et. al. (1974) and for the conversion to 1990 PPP dollars, Maddison (1995), pp. 184-85. The Bulutay et. al. estimates for the growth rates of manufacturing output and other related aggregates for 1929-39 were revised downwards following the calculations by Zendisayek (1997), chapter 4.

Table 3

## Turkey's Foreign Trade , 1924-1946

	1924-5	1928-9	1938-9	1945-6
Exports (mill. dollars)	92.5	81.5	107.5	192.0
Imports (mill. dollars)	114.5	97.0	105.5	108.5
Exports/GNP (in percent)	12.8	11.4	6.9	5.2
Imports/GNP (in percent)	15.8	14.4	6.8	2.8
Trade Balance/GNP(percent)	-3.0	- 3.0	+ 0.1	+ 2.4
External terms of trade (export prices/import prices)	129	100	79	68

*Sources:*

Turkey, State Institute of Statistics (1994) and calculations based on Bulutay et. al. (1974).



Table 4

Turkey : Agricultural Production and Prices, 1928-1946

(all indices unless indicated otherwise)

	1929-30	1938-39	1945-46
Labor Force	100	119	125
Cultivated Land	100	142	135
Total Crop Output	100	146	120
Total Yields	100	103	89
Wheat Output in million Tons	2.4	3.8	2.6
Wheat Output	100	160	110
Wheat Yields	100	113	81
Cereals Output	100	148	99
Non-cereal Output	100	148	146

Relative prices :	1928-9	1932-3	1938-9	1945-6
Internal terms of trade agl prices/non-agl prices	100	69	81	95
cereal prices/ non-agl prices	100	55	57	80
prices of non-cereal crops/ non-agl prices	100	90	104	109

*Note:* 1928 is excluded from the production indices since it was an exceptionally poor harvest year.

*Sources:*  
calculations based on Bulutay et. al.(1974).



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