

## CHAPTER 9

# 1923-1930 ECONOMY OF THE REPUBLIC OF TÜRKİYE AND MODERNISATION

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### 1. INTRODUCTION

After the Ottoman Empire, which ruled over three continents and managed to survive for more than 600 years, was officially erased from the stage of history in 1923, the Republic of Turkey, which was established after the Ottoman Empire, inherited both the political and cultural heritage of the Ottoman Empire, as well as the economic heritage of the Ottoman Empire.

At the time of its foundation, the Republic of Turkey inherited a very difficult economic situation. Many unfavourable factors such as the increase in war expenditures, the decline in the treasury's revenues, and capitulations revealed the economic situation of the Ottoman Empire. The young Republic had to take some serious steps to recover this legacy and to ensure that it would move forward. Every step to be taken in this field had to be taken cautiously and in a way that could be a solution. Because the country had emerged from a heavy war and was also a young Republic. For this reason, it was necessary to take low-risk but also big steps. Due to the heavy psychological burden, the ruling cadres had to act very cautiously.

What are the modernisation moves in the Turkish economy in the efforts to get rid of this dark picture in the first years of the Republic of Turkey? In this study, we will seek the answer to this question. We will seek the answer to this question by analysing the economic situation after the establishment of the Republic, that is, from 1923 to 1930. In short, we will make an analysis of economic policies between 1923 and 1930 and reveal the situation of these policies in terms of modernisation.

In this framework, in the first part of our study, we will try to give a brief explanation of modernity and modernisation and what should be understood from these concepts. In addition, the question of what economic modernisation is will

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be addressed. Afterwards, a general evaluation of the economic situation just before the establishment of the Republic will be made. Thus, we will be able to see the background of the steps taken in the first years of the Republic of Turkey and provide a better understanding of these steps.

After analysing the historical background, in the second part, we will first try to see why the steps to be taken in the field of the economy should be taken in the first place, that is, what is the main motive that drives us to seek new approaches in the economic field. Then, in the continuation of the second part, we will analyse the Izmir Economic Congress, which will draw the general framework of all the activities to be carried out in the field of the economy after 1923, which is a first in the field of economics and the basis of economic policies. In this section, after analysing the process leading to the congress, why the congress was held on those dates and the decisions taken in the congress, we will explain the economic activities carried out in line with the decisions taken in the congress between 1923 and 1930. Thus, we will see the real realities underlying the economic practices implemented in those periods.

In addition to the Izmir Economic Congress, the Lausanne Peace Treaty was one of the events that were important in economic terms and played a fundamental role in the determination of economic policies. For this reason, one of our titles is “Economic Consequences of the Lausanne Treaty”. As the title suggests, in this section, the Lausanne Treaty and the economic legacy of the Republic of Turkey will be explained in terms of the debts inherited by the Republic of Turkey from the Ottoman Empire and the provisions of Lausanne on this issue. In addition, the issue of customs and capitulations will also be discussed. In addition, the Turkish-Greek population exchange, which is not among the economic provisions but will have serious economic consequences, will also be discussed.

Finally, the impact of the economic depression of 1929 on the Republic of Turkey, which would change the general framework of the economic policies that continued from 1923 to 1930, cause the transformation of the liberal understanding system into the statist understanding and deeply affect the economic systems, will be mentioned. After this date, it will be seen how the understanding of the economy has changed.

## **2. MODERNISATION**

### **2.1. Modernity**

The term modernity, for Anthony Giddens, “refers to the forms of social life and organisation that began in Europe in the seventeenth century and later influenced

almost the whole world”. Peter Wagner locates the start of modernity in the “democratic and industrial revolutions” that occurred in the eighteenth century (Altun, 2011, p.10).

In other words, the term modernity refers to a form of society that began to sprout in Western Europe in the seventeenth and eighteenth centuries and whose main manifestations were encountered in North America and has since spread or been imposed on the non-Western world (Pool, 2003 as cited in Altun, 2011, p. 10).

Based on these definitions, modernity is not different from a hegemony that obliges us to shape our lives. As Altun states, “modernity is the exclusion of the old and the sanctification of the new, and it has become an imperious system that has attempted to regulate daily lives since the nineteenth century.” This is a radical change. This change is a transformation that involves the reorganisation of society and the formation of new relations (Altun, 2011, p. 10).

According to this concept, those outside the West are called “tradition” and marginalised. While the West is a historical, non-stationary structure, the East is excluded from being a subject.

## **2.2. Modernisation**

Modernisation, in its simplest definition, describes the process towards modernity (Altun, 2011, p.10). Anthony D. Smith discusses modernisation under three headings: modernisation as “a process of social change or theoretical universal in space and time, or the sum of such processes”; modernisation as a historical experience, usually traced back to the Renaissance and Reformation, “distinguished by secularisation and the birth of capitalism”; modernisation as a concept describing “a series of policies pursued by the leaders or elites of developing countries”. According to Rustow and Ward, the concept of modernisation refers to “the gigantic transformation that began in Western Europe at the end of the Middle Ages and has now encompassed even the most remote countries”. Wilbert E. Moore defines modernisation as “the contemporary transformations that traditional or backward countries undergo in order to acquire the economic and other structural characteristics of national units that have reached the level of advanced technology” (Altun, 2011, p. 11-12).

When we look at these definitions and modernisation studies, a common and complementary issue emerges in all of them. These are political modernisation, which includes key institutions that support participatory decision-making such as political parties, parliaments and voting rights; cultural modernisation, which

generally produces secularisation and adherence to nationalist ideology; economic modernisation, which is different from industrialisation but is identified with an increasing economic transformation and includes elements such as the increasing distribution of labour, the use of administrative methods, the progress of technological advancement and the increasing development of business capabilities; social modernisation, which consists of items such as the growing literacy rate, the urbanisation progress and the gradual weakening of traditional authoritarianism (Altun, 2011, p. 12).

### **2.3. Economic Dimension of Modernisation**

When we look at what has been said, it does not seem wrong to describe modernisation as the steps taken by societies in the direction of westernisation. In this context, modernisation in the economic field is seen as the steps taken to resemble the economic situation of the West, which sees itself as the only subject. The concept of economic modernisation includes elements such as urbanisation, industrialisation, and technological and agricultural reforms.

Considering that industrialisation started in the West and spread from there, economic modernisation becomes a concept identical to industrialisation. In parallel with industrialisation, development in agriculture is one of the precursors of modernisation. The main economic activity of non-modernised societies is agriculture. In this respect, modernisation includes concepts such as agro-industry and modern agriculture as well as industrialisation. In addition, the development of the service sector is also a means of modernisation.

## **3. ECONOMIC SITUATION OF THE REPUBLIC OF TURKEY BETWEEN 1923-1930**

### **3.1. The Economic Situation Inherited by the Republic of Turkey in 1923**

Since the foundation of the Ottoman Empire, economic policies have always remained in the shadow of political policies and developed on the axis of politics. Some policies were not at all similar to the economic policies of European states and were sometimes even contradictory. This makes it difficult to understand the Ottoman economic life today. Perhaps the most interesting of the problems that are difficult to understand is the fact that the Ottoman state resisted for centuries by following a policy that was the exact opposite of the protectionist economic policies of the European countries, with which it was in close contact, the first signs of which emerged in the early modern times, peaked in the mercantilist period and has been maintained in different forms and practices until today. While

the increasing majority of Western countries were competing and fighting to curtail, quataise, impose differentiated high customs walls and even ban imports and develop and encourage exports, the Ottoman state, with a policy that can be called the opposite, liberalised imports and imposed restrictions, limitations and regulations on exports, such as raising customs walls and even prohibitions, is an attitude that does not seem easy to explain (Genç, 2009, p. 56). The existence of capitulations, liberalisation of imports and excessive restrictions on exports and the situation of structures such as chambers of artisans are other issues that are difficult to explain.

The explanation of these situations will of course be easier when the conditions of that day are considered. First and foremost, these situations should be evaluated within the framework of 3 basic principles existing in the economic life of the Ottoman Empire. These principles are The principle of provisionism, which means that the goods and services produced should be as abundant, high quality and cheap as possible, that is, the supply of goods in the market should be kept at the highest possible level, the principle of traditionalism, which means not to break away from tradition, not to touch what comes from the past, since new things may be riskier, and finally the principle of fiscalism, which means that the treasury should be as large as possible. When these three principles and the economic policies of the Ottoman Empire are analysed as a whole, these seemingly incomprehensible points become more understandable.

The economic understanding of the Ottoman Empire, which continued until the last century, underwent serious changes in the last century. Since the beginning of the XIXth century, the revolts in the Balkans and the successive wars put the Ottoman economy in serious trouble. Although moves such as the devaluation of money and the use of paper money were implemented, they could not be a solution.

All these moves, which were made to ensure the survival of the state by harmonising with the West, were not enough to solve the real problem and the Baltalimanı Agreement was signed with England in 1938. This agreement was the breaking point. According to this agreement, monopolies were abolished, raw materials were allowed to leave the country and customs duties were reduced in foreign trade (Özcan, 2009, p. 312). This agreement officially meant a break from tradition. This move of opening up the economy also meant the beginning of liberal policies. In fact, this agreement was signed not only for economic reasons but also for political reasons as in the past. It was nothing other than Britain's wish to obtain economic concessions in return for the help it was asked to provide in suppressing the rebellion of the Egyptian Governor Kavalalı Mehmet Ali Pasha.

This process later brought along foreign borrowing. Having made the first foreign borrowing in 1854 during the Crimean War, the Ottoman Empire was in a sense leaving the control of its economy to foreign powers. This foreign borrowing adventure would continue until the establishment of Duyun-u Umumiye (General Debt Administration) in 1880.

After the proclamation of the Constitutional Monarchy II, the fact that the capital was largely in the hands of minorities, the monopolistic and colonialist attitude of foreign capital, unequal competition conditions and successive wars did not allow the liberal economic approach to be implemented in the conditions of the empire, and the 'national economy' view was adopted by recognising the dangers it could pose (Özcan, 2009, p. 319). The years of the Great War, on the other hand, opened a temporary period in which national economic policies gained superiority over liberal policies. The 1914-1918 period was marked by a nationalist-protectionist approach to economic practices. There were various initiatives such as the creation of a national bourgeoisie, cancellation of old debt agreements, limitation of foreign investments, development of the domestic industry by the state, etc. (Özcan, 2009, p. 325). These practices brought about by the idea of westernisation brought about an economic crisis as well as a political crisis.

Ali Coşkun describes the economic crisis that came with the political crisis of that time as follows:

"The Ottoman Empire, which was weakened as a result of the wars it participated in at the end of the 19th century and the beginning of the 20th century, looked like an economically collapsed country in its last days. Domestic resources were insufficient in financing the wars and a high amount of borrowing was incurred. The economy of the country was in a miserable state in every aspect such as manpower, industry, agriculture, foreign debts, transport, and national production. After decades of wars, many businesses had closed down, the productive male population had decreased, child and adult mortality rates had increased, families had broken up, and unemployment had reached its peak due to migration. The available resources had been placed at the disposal of the army to a considerable extent and these resources had also been exhausted as a result of the wars. On 23 April 1920, the Grand National Assembly of Turkey was convened in Ankara, and during the three-year War of Independence, it was faced with great economic difficulties. In this economic environment, which was very bad in the last period of the Ottoman Empire, a war of independence was fought with limited resources. The first financial and economic problems of the new government started with the financing of the Congresses and then continued to worsen. When the Grand

National Assembly of Turkey was inaugurated, monetary resources were very limited and foreign aid was also very inadequate. The available resources were spent on meeting the needs of the war and all kinds of war materials were provided with the contributions of the people. Between 1920 and 1922, it was impossible for the new government in the War of Independence to produce economic policies and take steps towards development. In the years when the War of Independence was won, Turkey looked like a poor country with depleted resources, no industry and very backward in agriculture. Most of the existing enterprises were in the hands of foreigners and these foreign capital owners were leaving Turkey. Most of Turkey's basic necessities such as sugar and cloth came from abroad" (Coşkun, 2003, p. 72).

### **3.2. Economic Policies After 1923**

In 1923, the Republic of Turkey inherited an economic structure that was an exporter of raw materials, an importer of industrial products and an economic structure in which foreign borrowings, the Duyun-u Umumiye Administration and continuous concessions were granted (Boratay, 1989 as cited in: Eroğlu, 2003, p. 1).

When Gazi Mustafa Kemal announced the foundation of the Republic of Turkey to the world, the whole world knew how poor the country was. Indeed, the people of Anatolia, who had experienced the Balkan War, the First World War and the War of Independence, had lost everything they had, their wives and children. The Great Saviour, who won the War of Independence with these poor Anatolian people, considered it inevitable to ensure economic independence in order not to lose the political independence obtained with the Treaty of Lausanne (Tokgöz, 2011, p. 45).

#### **3.2.1. İzmir Economic Congress**

Turkish traders of Istanbul founded the National Union of Turkish Trade following the War of Independence. The aim of the association of the Union was to bridge the gap left by the selling off of the minority organisations that maintained external ties with the foreign economic system. The National Union of Turkish Trade resolved to organise a Commerce and International Economy Congress in January 1923. In the meantime, the Government of Ankara was organising for the İzmir Congress of Economics to publicise the challenges faced in Lausanne to the general public in Turkey and the world, as well as to discuss various problems of the economy (Özçelik and Tuncer, 2007, p. 255).

The congress planned to be organised by the NTTU was postponed because its preparations could not be completed. The foreign trade congress planned to be

organised by the NTTU, which started to make preparations for the congress to be held in İzmir, was never convened (Koraltürk, 2011, p. 98).

Before the proclamation of the Republic, on 17 February 1923, the “Turkish Economic Congress” was convened on the initiative of Mahmut Esat (Bozkurt), the Minister of Economy, and with the support of Mustafa Kemal, to discuss and debate the economic measures to be taken for the transition to an independent economy. The Congress convened in Izmir under the presidency of General Kazım Karabekir, one of Mustafa Kemal’s close colleagues, and was attended by 1135 representatives of merchants, industrialists, tradesmen, farmers and labourers from all provinces. The Congress, which was completed on 4 March, was followed by 40 deputies. Only the ambassadors of Soviet Russia and Azerbaijan serving in Ankara were present at the Congress (Tokgöz, 2011, p. 46).

The Izmir Congress of Economics was also of major significance due to the fact that it was held during the period when the Lausanne negotiations were suspended due to disagreements. Furthermore, two of the major topics that could not be settled at Lausanne were the issues of Ottoman debts and capitulations, which were the bane of the Ottoman national economy. At this point, the countries on the other side of the table had their eyes on the messages to be given at the congress.

In addition to these, the congress had several other aims. These aims were:

- To shed light on the economic policies to be followed by the new Turkish State and the economic system to be established,
- To ensure the rapprochement of the capital circles in Istanbul and Izmir, which could not establish healthy and beneficial relations with Ankara during the years of the National Struggle, with the representatives of the Ankara Government,
- To show the parties at Lausanne that the military and political cadres who led the National Struggle had the full support of all segments of society not only in the military-political field but also in the economic field, and to be able to say “no” as a nation to those who wanted the continuation of capitulations,
- It was to reassure Western European countries that there would be no transition from a liberal to a communist order (Tokgöz, 2011, p. 46).

The resolutions adopted at the Congress were collected in two parts called “Misak-ı iktisadi” and “Principles Regarding Farmer, Trader, Industrialist and Worker Groups”.

The resolutions falling under the former category are the listed below (Yavi, 2001 as cited in Özçelik and Tuncer, 2007, p. 255-256).



- Efforts shall be made to develop local manufacturing,
- Luxurious purchases shall be prevented,
- Foreign investments shall be permitted that it will contribute to the economic growth.
- Certain decisions in the second section were as below:
- Reji management and administration shall be abolished,
- Tobacco cultivation and commerce shall be freely available, exported tobacco must be processed and duties shall be charged to the customer,
- Ashar shall be cancelled and replaced by an adequate tax,
- Tax on dividends shall be transformed into tax on income,
- Domestic duties shall be abolished and tariffs of protective customs shall be adopted,
- Ziraat Bank shall be reorganised,
- An Industry Bank shall be set up to provide loans to the manufacturers,
- The Law on Encouragement of Industries shall be made to meet the needs of the day and shall be extended for 25 years after five years,
- Cabotage rights will be ensured in Turkish ports and railway, ports and other transport infrastructure will be developed,
- The working hours of workers will be regulated and no one under the age of 18 will be allowed to work, and 1 day of holiday will be given to workers per week,
- The term “labourer” shall be replaced by the term “worker”,
- Trade union rights will be granted to the entire workforce.

### ***3.2.2. Economic Policies***

90% of the people of the new Republic of Turkey were illiterate and more than 80% of them depended on agriculture for their livelihood. The Turkish peasantry used primitive agricultural technology behind the times and cultivated a very small portion of arable land. There was no capital accumulation, no infrastructure, no trained labour force and no entrepreneurs with business skills, nor was there an orderly bureaucracy to provide guidance and direction. There was no public opinion or intellectuals to criticise and make suggestions to the public administration and the private sector. When the Republic was proclaimed, there was only one university (Darülfünun in Istanbul) in the country and it offered education in eight different disciplines. There was also a Higher Teacher Training School. The total number of students in both schools was 1200. After Ankara became the capital city, the Law School was opened in 1925 and the Agricultural Institute in 1930 (Tokgöz, 2011, p. 50).

Within the framework of this picture, the founders of the Republic were aware of the necessity to create new economic policies. In the early years of the Turkish Republic, economic policies were designed in line with the resolutions of the Turkish Congress of Economics (Izmir Economic Congress), and as a principle, industrialisation policy was pursued under free market conditions by private enterprise. However, the state would also step in in areas where private enterprise could not afford or did not find profitable. In short, a mixed economic development policy with a focus on the private sector was followed (Eroğlu, 2007, p. 64).

In parallel with the policies set out in the Izmir Economic Congress, a series of decisions were taken in the following years and these decisions became the determinant of the economic policies of that period.

Despite all efforts, the country has not been able to make a rapid industrialisation breakthrough at the desired level. The reason for this is the lack of infrastructure, capital, entrepreneurs and technical staff as well as the factors explained above. The fact that foreigners did not make new investments due to uncertainty and non-Muslim minorities left the country are other reasons that negatively affected industrial production. The state tended to invest in the industry, but a significant part of the insufficient public capital was used for railway construction and the purchase of foreign-owned railways. Within the national economic understanding, it was desired that the capital should be concentrated in local hands (Eroğlu, 2007, p. 2).

In line with the guidelines set out in the Izmir Congress of Economics, a number of banks were established in the years following the congress to finance Turkish commercial and industrial life. These banks were Türkiye İş Bankası, Türkiye Sınai ve Maadin Bankası, Türkiye Sınai ve Maadin Bankası, Türkiye Sanayi Kredi Bankası, Emlak ve Eytam Bankası, the reorganised Ziraat Bank and the Central Bank of the Republic of Turkey. One of the most interesting developments in the banking sector during this period was the establishment of a large number of local banks. There were 29 local banks as far as can be determined. In the first years of the Republic, the fact that external trade had a significant portion in the country's national revenue and the pursuit of an economic policy open to foreign markets led to the establishment of six foreign banks (Paçacı, 1998).

In this period, the levies inherited from the Ottoman Empire were attempted to be regulated. Dividend and war tax, which were among the taxes inherited from the Ottomans, were cancelled in 1926. The Ashar tax, one of the most significant taxes on income, which was also handed down to the Republic, was abolished in 1925 (Korkmaz, 1998).

After the abolition of the Ashar tax, the state monopolised some goods. In 1925, these monopolies were transferred to the Industry and Mining Bank. Foreign capital was insufficient. Therefore, Atatürk, who had both great intuition and a broad economic culture, opened the doors to foreign capital for the development and improvement of the country's economy. However, Atatürk opposed the constant dependence on foreign capital and the factors that led to this dependence. Because according to him, the country should achieve economic independence. The best foreign capital is to increase the savings of the country and transfer them to productive investments, as explained above. Atatürk also authorised the establishment of foreign banks that would bring capital into the country. Indeed, the Turkish State had to organise and revive its economy immediately. In order to realise this revival, the help of foreign capital and technology was inevitable (Özgüven, 2002, p. 117).

The young Republic's establishment cadres placed the industrial field at the centre of development. As we have mentioned before, the previous experiences of the Ottoman era played a crucial role in this. In a sense, we can call all the above-mentioned steps taken for the formation of the industrial base. A further blow to our industrialisation, which was struggling with the lack of infrastructure, was dealt by our artisans who went to Greece with the population transfer, since the vast part of our nation was engaged in farming. In those years, we can analyse the lack of the required conditions for industry not only from our economic structure but also from the fields of activity of the people. In addition to the banking sector, to lay the groundwork for industry, the founding cadre extended the scope of the 1913 Incentive-Industry Law and adapted it to that time. In 1927, the new Incentive-Industry Act was put into practice. Some issues within the scope of the law are as follows;

- Free land up to 10 hectares shall be provided to the enterprises deemed appropriate.
- The telephone-telegraph connections required for communication and the motor power to be used will be allocated by the state free of charge.
- Enterprises will be granted immunities from customs and profit tax.
- The state guarantees the sale of up to 10 per cent of the yearly production.
- State products shall be sold to such enterprises at a discount.
- When qualified labourers were required, they could be brought from abroad for a short period of time to teach Turkish employees the same job (Çavdar, 2003, p. 180).

Agriculture can be described as the most important sector of the period. Because the Ottoman Empire, which could not keep up with the industrialisation movement in the world, held on to the agricultural sector in economic terms. Therefore, in the early years of the Republic of Turkey, which was built on the Ottoman heritage, the agricultural sector stood out as the locomotive of the economy. Over 70% of the population is involved in farming and 80% of our population lives in the countryside. We have mentioned before that one of the greatest barriers to farming was the Ashar tax. After the removal of the Ashar tax in 1925, the main deficiencies that continued in the period were the lack of population, poor soil utilisation and the underdevelopment of production techniques. However, it is also possible to see the other two causes as the reason for the poor level of land usage. Another important deficiency, although not noticeable at first, is the inadequacy of transport. This deficiency in transport and transport constituted a significant barrier to the agricultural products' access to national and international trade markets (Aruoba, 1982, p. 79-80).

The policies implemented under the title of "Economic Principles of the Farmer Group", which we have already mentioned in the Izmir Economic Congress, led to partial success in agriculture.

A strong currency was needed. Based on this objective, a balance between exports and imports could be established without causing inflation and the value of the Turkish Lira against foreign currencies was preserved. As a matter of fact, from time to time, balance in foreign trade was achieved by cutting imports. On the other hand, there was no inflation in the 1923-1938 period (except for 1929) and real economic growth was 6%. One of the objectives of monetary policy is to ensure a balance between money supply and money demand. As is well known, Atatürk did not favour an increase in the money supply by printing money openly. Because Atatürk proposed a development model without inflation. If the internal value of money is decreased by inflation, the external value of money also decreases (devaluation). If the internal value of money can be maintained, its external value will remain constant. Only because of the debts owed by the Düyunu Umumiye, the value of the Turkish Lira decreased against the pound sterling until the year the Central Bank was established (1930) (Özgülven, 2002, p. 117).

Adopted in 1924, the liberal spirit of the Law on Organisation (Constitution) did not allow for the motivation of national power for the common good, nor the establishment and operation of extraordinary organs. Everything had to be organised according to the legal and economic arrangements in western democracies and no compromises were to be made. Although there were various moves made

after 1924, such as the boastful achievements in the establishment of the railways as mentioned earlier, all these were achieved under the somewhat interventionist leadership of Atatürk and by more or less enforcing the laws. However, the hopes for rapid development with the Liberal programmes that were being pursued in general were being dashed due to the internal and external obstacles we have tried to explain above and the general lack of infrastructure and capital accumulation. In 1930 and afterwards, during the economic depression that swept the world and eventually led to a world war, unfriendly relations between nations opened economic policies in Turkey to state interventions.

### ***3.2.3. Economic Provisions of the Treaty of Lausanne***

The results of the Treaty of Lausanne, which was signed after a long period of negotiations, affected Turkey not only politically but also economically. With the Treaty of Lausanne, the capitulations, which had heavy economic effects on the country, were abolished. The abolition of capitulations was seen as a great success. However, with this treaty, a large part of the Ottoman debts were taken over by the Republic of Turkey.

The other important development that left its mark on the economic policies of the first years and led to the pursuit of an open structure in economic policies was the Lausanne Peace Treaty. Although Article 28 of the Treaty stipulated that capitulations in Turkey were abolished in all respects, two other important developments did not result in our favour. As per the provision of the Treaty, customs tariffs were to be kept at the 1916 level for 5 years, which left industrial manufacturing deprived of customs defence for a period of time. Moreover, some of the Ottoman foreign debts were taken over by the young Republic and it was burdened with debt at the very beginning (Eroğlu, 2003, p. 2).

Taking into account the limits stipulated by Lausanne, the Ottoman debt was distributed between the Republic of Turkey and the other states that shared the territory of the empire. However, due to the disagreements between the states on debt distribution, the treaty between Turkey and the creditors was signed on 13 June 1928. Turkey undertook to pay 107 million gold liras of the Ottoman debt of 161 million gold liras (Özçelik and Tuncer, 2007, p. 257).

Provisions such as Ottoman debts and war reparations absorbed the already insufficient investment resources, while on the other hand, the article on customs duties made independent foreign trade impossible. The Trade Agreement, which was signed as an annexe to the Treaty of Lausanne, froze Turkey's economic policies for five years and stipulated that, with some exceptions, import and export

bans would be lifted and not replaced by new ones, and customs tariffs would remain unchanged for five years. According to the Treaty, Turkey was obliged to keep the customs tariffs on goods imported from Britain, France, Italy, Japan, Greece, Yugoslavia and Romania at the level of the 1916 Ottoman tariffs. The customs tariff determined in Lausanne provided a degree of protection of approximately 13 per cent to the national economy (Özçelik and Tuncer, 2007, p. 257).

In addition to these, the impact of the Turkish-Greek population exchange implemented with the Lausanne Treaty on the Turkish economy should also be mentioned here. At that time, Greeks constituted a significant part of the non-Muslims who dominated the trade. With the emergence of the exchange event, uneasiness arose in Istanbul. In addition to this, the gaps in both professions, trade and agriculture that occurred after the departure of the Greeks could not be easily filled.

#### ***3.2.4. World Economic Depression and its Effects on Türkiye***

The Great World Depression of 1929 was the biggest crisis experienced by economic systems since the emergence of capitalism. This crisis, which shook the classical and neo-classical economic approaches, emerged and spread in a very severe manner in terms of scope and intensity (Özçelik and Tuncer, 2007, p. 260).

The 1929 global economic crisis is known by many historians as the major crisis of global economic events. Following the First World War, the United States had become relatively active in the global thrift and had acquired a considerable quantity of gold throughout the war. The money collected in the USA was channelled to the buying of lands and properties, particularly in Florida. Nevertheless, with the ending of specs on property, real estate values dropped and the money exiting the land was diverted towards the New York Stock Market. The extreme increase in stock values and the disconnection from reality led the Federal Reserve Bank to increase rates of interest from 7 per cent to 15 per cent during the 1929 summer to prevent the excessive raise in speculation. When shares peaked, owners started selling their stocks, leading to the crash of the New York Stock Market. The downfall of the stock market was followed by the fall of the banking sector (Kazgan, 2008, p. 43-44).

With this process, banks went bankrupt, stock markets lost value, and investment and consumption expenditures came to a standstill. Among the important causes of the 1929 world economic crisis; inequalities in income and wealth distribution, the imbalance between the financial structures of companies, deterioration in the financial structures of banks, deficits in the balance of payments, inexperience in economic management, the unstable structure of international

debts and insistence on the gold standard as a medium of circulation are counted (Akyıldız, 2005, p. 34).

The first reflections of the Depression in Turkey manifested itself in the form of air of panic as the value of the Turkish currency fell rapidly and started to lose value rapidly against the British currency. This panic atmosphere was also covered in the Turkish press. Upon the economic fluctuations in December 1930, the government was forced to make a statement, and İsmet İnönü, the Prime Minister, made a long statement on “National Currency” in the Grand National Assembly of Turkey and elaborated on the reasons for this decline and attributed the decline to the following reasons (Tekeli and İlkin, 1983 as cited in Ezer, 2005, p. 158).

- Existence of a demand for foreign currency as a result of excessive imports caused by wartime closure and deprivation.
- Large expenditures without taking into account state revenues.
- Absence of an institution to control money and credit transactions at the national level.

After the 1929 World Depression, when the volume of foreign trade contracted, an inward-oriented economic policy was followed, and due to insufficient private investments, the state started to support the private sector with Public Economic Enterprises (SEE) (Özgüven, 2002, p. 120).

The importers, realising that the Government was going to raise tariffs, used every means at their disposal to increase imports. All kinds of foreign exchange in general and imports and exports in particular, were largely in the hands of minorities. When these minorities entered into a relationship of mutual interest with the Ottoman Bank, which used the Central Bank's seats, imports increased rapidly in 1929 and foreign trade unexpectedly ran a deficit. It would have been possible for the state to break this domestic trap by increasing exports. There was also such an expectation. This time the “Great Depression of 1929” shook the whole world. erupted. This crisis led to a sharp fall in prices in the large-scale agricultural markets. As a traditional exporter of agricultural products, the prices of Turkey's export products plummeted, leading to poverty. Thus, the young Republic of Turkey, which was trying to build and develop its national economy, had to declare a kind of “economic mobilisation” and take control of the functioning of the national economy. In addition to the political and cultural reforms they had successfully completed and put into effect, Atatürk and his colleagues embarked on structural reforms in the economic field (Tokgöz, 2011).

The year 1930 is a turning point in the Turkish economy during the Republican period. After the 1929 Crisis, statist, interventionist and protectionist policies



started to be implemented in Turkey as in the whole world. Considering that the policies encouraging private sector initiatives between 1923 and 1929 were insufficient for the development of the country, the ruling party CHP adopted statism in its programme in 1931 (Coşkun, 2003, p. 75).

#### **4. 1923-1930 ECONOMIC MOVES AND MODERNISATION**

Regardless of the nature of the economic heritage left from the Ottoman Empire, when the foundation years of the Republic of Turkey are analysed, we come across serious differences between the order of the inheritance and the order established later. The Ottoman Empire, which had an economic structure shaped entirely by political life, had a different economic order from other western countries until the last century. In the last century, several factors led the Ottoman economy to open up to foreign markets. This brought an air of liberalism to the economy. This air of liberalism was not very beneficial and made the Ottoman problem of foreign debts insurmountable.

For this purpose, the first thing this young state did was to convene the Izmir Economic Congress to determine policies in the field of economy and to announce them to the world. It is also quite significant that this congress was organised at a time when the Lausanne Negotiations were interrupted due to the conflicts experienced during the negotiation of the provisions related to the economy.

The Izmir Economic Congress would draw the economic road map of the young Republic and prove its existence and economic determination to the whole world. Several policies were implemented within the framework of the decisions taken at this congress. Thus, the banking system was established, taxes were reorganised and some taxes such as the aşar tax were abolished. Some innovations were also made in the field of industry, the most important of which was the Law on Incentive Industry. The way was paved for foreign capital and steps were taken to protect the value of the Turkish currency.

Another development in the field of economic policies that had an influential role in these policies was the Treaty of Lausanne. This agreement regulated the debts inherited by the Republic of Turkey, abolished the capitulations that were a burden on the state, abolished import and export bans with some exceptions and replaced them with new ones, and stipulated that customs tariffs would remain unchanged for five years. The Turkish-Greek population exchange, which was put into practice with the Treaty of Lausanne, had important consequences both in terms of the gaps created in the trade and agricultural sectors and the uneasiness it created in the market.



Proclaimed in 1924, the liberal spirit of the first Constitution of the Republic of Turkey (the Constitution of Organisation) was also reflected in economic policies. Because the 1924 Constitution could not be expected to contain provisions contrary to the decisions taken at the Izmir Economic Congress, which was seen as a prescription for economic salvation put forward by the founders of the Republic.

Another important economic development was the World Economic Depression of 1929. This crisis affected the Republic of Turkey as well as the whole world. This crisis was a turning point. With the crisis, the currency lost its value and the agricultural sector suffered serious wounds. This time, the state embarked on structural reforms in the economic field. The private sector was insufficient and the state started to support the private sector through State Economic Enterprises (SEEs). Thus, it was thought that the encouragement of the private sector was insufficient for development and protectionist and interventionist policies began to be adopted. In 1931, the state started to adopt statism in its programme.

Between 1923 and 1930, the current economic situation played a decisive role in the development of economic policies. During this period under the leadership of Atatürk, two different policies were followed in the country's economy and finance. While these policies pursued in the Republic of Turkey were liberal in the period until the great crisis of 1929, they turned to a statist approach with the reflection of the developments in the world conjuncture after 1929 (Kaya and Durgun, 2009, p. 235).

When all these are taken into consideration, the table shows that at the end of the Ottoman Empire, which had its own economic order, and at the beginning of the Republic of Turkey, westernisation, which is also known as modernisation, showed its effect in the economic field. When we look at the economic policies between the years 1923-1930, it is seen that many developments are similar to the West, even if they are not under the influence of the West. This indicates the place of the concept of modernisation in the economic policies of the young Republic of Turkey.

## **5. CONCLUSION**

The West, which sees itself as the sole subject, has believed that it is the absolute truth in the economic field as well as in political, cultural and social life. In this context, the fact that another name for the concept of modernisation, which has gained importance since the 18th century, is westernisation reveals everything. What is called modernisation is a name for the belief that the West is always better and the necessity of becoming like it.

In this context, the Ottoman Empire could not isolate itself from the concept of modernisation and was affected by it. The Ottoman State, which had survived for many years with its own economy and continued its life without being dependent on the outside world, was dragged into a bottleneck in the economic field as well as in the cultural, social and political fields with the modernisation movements.

The Republic of Turkey, which inherited the legacy of the Ottoman Empire, acted with the motive of overcoming these bottlenecks. However, the concept of modernisation, which means westernisation, also showed its influence in this period. In addition to its impact in the cultural, social and political fields, its economic impact, which is the main subject of this study, affected the young state considerably.

This study, which is a brief summary of the economic policies implemented between 1923-1930, reveals the modernisation moves in the economy. In this context, the Izmir Economic Congress held at that time constitutes the main framework. The basic approaches that shaped the 1923-1930 period were put forward in this congress and became the most important elements. The view of liberalism, which is mentioned in the section on the main objectives of the congress and which dominates the congress in general, being the dominant view in the western states in the world, makes it easier for us to look at the policies of that period from the framework of modernisation.

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